FOR AGENDA

SM/99/45

February 19, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Transparency and Fund Policies—Further Steps**

Attached for consideration by the Executive Directors is a paper on further steps in transparency and Fund policies, which will be brought to the agenda for discussion on a date to be announced shortly. Issues for discussion appear on pages 19 and 20.

Ms. Metzgen (ext. 37863) or Mr. Dorsey (ext. 34047) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Transparency and Fund Policies: Further Steps

Prepared by the Policy Development and Review Department

(In consultation with the External Relations Department
and other Departments)

Approved by Jack Boorman

February 19, 1999

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I. EXECUTIVE SUMMARY AND INTRODUCTION

1. **In July 1998, the Board reviewed the role of the Fund in encouraging transparency in members' economic policies and in bringing greater transparency to its own operations** with a view toward next steps that could be taken in further enhancing transparency. Directors noted the importance of comprehensive and timely information for contributing to the effective functioning of international capital markets. They underscored that, in promoting greater transparency, the Fund should continue to balance carefully the need to preserve confidentiality vis-à-vis its members against the benefits of increased openness.[1] *The next steps agreed at that time included measures to enhance transparency in the area of Fund surveillance, use of Fund resources, and policy discussions (Box 1).*

2. **This paper reviews the Fund's experience with transparency in light of the steps agreed by the Board in July 1998 (Section II).** Since that discussion there has been ongoing discussion, both in the Fund and in other fora, of the value of the timely release of information on members' policies and the Fund's assessment of them, in light of the events in emerging markets. In addition, some private sector entities have called for more regular mechanisms for the exchange of views on macroeconomic developments between representatives of private financial institutions and member country authorities as a means of providing information to inform risk assessment. There have also been calls for more contact between the private sector and the Fund. The release of the Fund's views on macroeconomic developments in member countries could make a contribution to the substance and effectiveness of such discussions.

3. **Steps toward greater transparency have been supported by most Fund Executive Directors and in the reports of other fora** (see Box 2, Section III). For example, the recent report of the G-22 Working Group on Transparency and Accountability indicated key areas where international financial institutions could—and are— taking such steps including greater interaction and communication with the public; more independent evaluations of their policies and procedures; and the release of more information about their views on developments in individual countries. More generally, the view has been expressed that there should be a presumption in favor of the release of information by the Fund, except where release might compromise confidentiality.[2] This latter concept is not, however, defined in any of these reports, nor are criteria proposed for its determination. There has also been an emphasis by the G-22 Working Group on "the importance of transparency about transparency."

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[1]See "Transparency in Members' Policies and Fund Surveillance" (SM/98/171, 7/2/98) and the Summing Up by the Acting Chairman (SUR/98/91).

[2]See the "Report of the Working Group on Transparency and Accountability," (G-22 Transparency Report), 10/5/98; "Declaration of G-7 Finance Ministers and Central Bank Governors," (G-7 Communiqué), 10/30/98; and "Work Program on Strengthening the Architecture of the International Monetary System," (Memorandum to the Managing Director from G-7 Executive Directors) 10/30/98.

Box 1. Fund Efforts to Improve Transparency Since July 1998

The Executive Board has agreed to:

- actively encourage members to consent to the release of Public Information Notices (PINs) following Article IV consultations (including for those consultations concluded on a lapse-of-time basis or with a short-form summing up) and to take steps to accelerate their release, enhance their user-friendliness and candor, and limit deletions to highly market-sensitive information, which would consist mainly of Fund views on exchange rate and interest rate matters.

- PINs will also be used to inform the public of the Board's conclusions following policy and regional surveillance discussions, on a case-by-case basis.

- strongly encourage members to publish Letters of Intent and Policy Framework Papers underpinning Fund-supported programs;

- conduct an external review on Fund surveillance and the Fund's research activities in the coming year (work is underway); and

- publish information on the Fund's liquidity position.

The Board also considered a number of other issues on which it concluded that further deliberation and analysis were necessary before decisions could be reached, notably:

- whether to authorize release of staff reports, on a voluntary and case-by-case basis, and how to balance the Fund's responsibility to oversee the international monetary system with its role as a confidential advisor to its members;

- the extent to which PINs could be issued following the approval and review of the use of Fund resources;

- whether further information could be released regarding the analysis underlying individual Fund-supported programs;[1] and

- whether the waiting period for access to the Fund's archives should be reduced, and whether the Board's work program should be released.

[1] Reviews of the design of programs and the experience of member countries under Fund-supported programs have been published in the context of ESAF reviews, Reviews of Programs under Stand-by and Extended Arrangements, and the report "IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment."

4. In light of the above, **this paper sets out for consideration by Directors (Section III) the staff's suggestions on what could be done further to promote transparency in Fund policies.** The proposals are advanced in the context of the complex issues raised in striving to strike an appropriate balance between transparency and confidentiality. In this regard, further steps are proposed to enhance transparency with a view that, as a general principle, the Fund will shift over time to a presumption in favor of releasing information on surveillance policies, programs, and the Fund's policies.

5. As the next steps for enhancing the transparency of *Fund surveillance*, this paper proposes a continuation of active encouragement for the release of PINs following Article IV consultations and authorization of the release of Article IV staff reports on a voluntary basis with a view to reviewing experience in one year (see Box 3, Section III). It also suggests that modifications to staff reports that are to be released would be guided by the same policy as is currently used for PINs, that is, deletions would be minimal, removing only highly market-sensitive information, mainly Fund views on exchange rate and interest rate matters.

6. For *use of Fund resources cases*, the staff proposes that the Fund continue to strongly encourage the publication of Letters of Intent/Memoranda of Economic and Financial Policies (LOIs/MEFPs) and Policy Framework Papers (PFPs). The staff also proposes that the Fund authorize the release of staff reports on a voluntary basis; and consider releasing concluding remarks of the Chairman in press releases on programs. As with staff reports for surveillance, it is proposed that deletions to UFR staff reports that are to be released would be minimal and follow the same policy currently used for PINs.

7. The paper also proposes for consideration by Directors the establishment of a process under which the Board would consider the release of PINs following discussions of Fund policy issues on a case by case basis.[3]

II. A Review of Experience Since July 1998

A. Transparency and Fund Surveillance: PINs and PIN Policy

8. In its July 1998 discussion of transparency and Fund surveillance, Executive Directors agreed to modifications to PIN policy aimed at encouraging their release by members and

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[3]Some transparency-related issues have been or will be addressed in separate papers on data dissemination to the public, data provision to the Fund, the Fund's archives policy, and the role of international standards—including the proposal for Transparency Reports—and Fund surveillance. On the latter, the G-22 Working Group recommends that the Fund, in the context of its Article IV consultations, prepare a report—a Transparency Report—that summarizes the degree to which a country meets internationally recognized disclosure standards in different areas.

enhancing their user-friendliness and candor (see Box 1).[4] In line with Directors' views, management has established a "PIN coordinator" to oversee the PIN process for Article IV consultations to facilitate the shortening in the delay for issuing PINs.[5] Subsequent to the Board's July 1998 review of PIN policy, there has been an increase in the proportion of Article IV consultations followed by a PIN, a recent shortening of the lag, on average, in issuance, and a reduction in the frequency of modifications to the summings up.

9. The proportion of cases in which a PIN was issued for Article IV consultations rose from 58 percent during the period May 1, 1997–July 31, 1998 to 70 percent in the five-month period, August 1– December 31, 1998 (Table 1). The proportions of PINs issued for both advanced and developing transition economies has increased between the two periods.[6]

10. Compared to the period before the July 1998 Board discussion on transparency, there has been a marked shortening of the average lag for issuing a PIN from 18 working days from the issuance of the summing up in the earlier period to 10 working days for the period August 1–December 31, 1998 (Table 2). The number of modifications to the summing up for the Executive Board assessment section of the PINs has fallen.[7] On content and candor, background sections of PINs increasingly provide coverage of current policies and the short-term outlook.

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[4]See "Transparency in Members' Policies and Fund Surveillance" (SM/98/171, 7/2/98) and the Summing Up by the Acting Chairman (SUR/98/91, 7/27/98).

[5]The PIN coordinator is located in EXR.

[6]The share of program country Article IV consultation discussions followed by PINs fell from 60 to 50 percent, but this may be in part a reflection of the small sample size (i.e., 6 consultations and 3 PINs) in the latter period.

[7]For PINs issued for Executive Board discussions held between May 1, 1998 and December 31, 1998, in only six cases (12 percent), three of which were for European countries, was the text of the summing up modified (excluding short-form summings up); this is down sharply from the 35 percent share during the first year of PIN issuance. For consultations held after the last discussion of transparency (SUR/98/91, 7/27/98), there were modifications in four of 23 cases (17 percent). (See Annex I for modifications of the text to summings up released as PINs from May 1, 1998 through December 31, 1998).

Table 1. Article IV Consultations and PINs Issued 1997/98 [1]

	Total Article IV Consultations		PINs Issued		Share (In percent)	
	May 1997-July 1998	Aug. 1998-Dec. 1998	May 1997-July 1998	Aug. 1998-Dec. 1998	May 1997-July 1998	Aug. 1998-Dec. 1998
All Countries	182	33	106	23	58	70
By program status						
Program countries	62	6	37	3	60	50
Non-program countries	120	27	69	20	58	74
By country classification						
Advanced economies	26	10	24	10	92	100
Developing countries and countries in transition	156	23	82	13	53	57

[1]Data refer to Article IV consultations completed and PINs issued by December 31, 1998. Subsequent release of additional PINs could result in upward revisions in the final data.

Table 2. Average Lag in the Release of PINs [1]

(In working days)

	May 1997-July 1998	Aug. 1998-Dec. 1998
All Countries	18	10
By program status		
Program countries	22	9
Non-program countries	16	10
By country classification		
Advanced economies	12	7
Developing countries and countries in transition	20	12

[1]Data refer to Article IV consultations completed and PINs issued by December 31, 1998. Release of additional PINs in 1999 for consultations completed in 1998 could result in revisions in the final data.

B. Transparency and Use of Fund Resources

11. In the July discussion of transparency and Fund surveillance, Directors agreed that transparency regarding members' economic policies is an important element in ensuring their successful implementation and in building confidence in private markets—a *siné qua non* of success in many programs. In this regard, Directors agreed that the Fund should encourage publication of LOIs/MEFPs and PFPs and urged that those documents published also be posted on the Fund's web site. For programs in place on December 31, 1998, either an LOI/MEFP or a PFP has been published in 45 of 67 cases (67 percent), all but 9 of which have also been posted on the Fund's web site (Table 3).[8] This represents a sharp increase over the previous situation.[9] However, for LOIs/MEFPs alone, the results in this area have been less positive with only 26 of 67 cases (39 percent) published.

C. Disclosure and Evaluation of the Fund's Policies and Other Activities

12. Concerning transparency of Fund policy advice, in its July 1998 review of PIN policy Directors also agreed to consider issuing PINs based on summings up of policy discussions once conclusions have been reached on a particular issue.[10] While no "PINs" *per se* have been issued for such discussions to date, extensive material on Fund policy papers and Board discussions has been released in other ways. For example, a staff paper distilling lessons from both ESAF reviews and the summing up of the Board meeting were posted on the web site, including a solicitation for public comment. The external evaluation of the ESAF has been completed and the report was placed on the Fund's web site along with the staff's response. The Board paper, summing up, and verbatim of the associated press conference on the IMF-supported programs in the Asian crisis cases were also recently posted on the Fund's web site.[11] The *Managing Directors' Report to the Interim Committee on Strengthening the Architecture of the International Monetary System* and fact sheets on a range of topics including architecture, the HIPC Initiative, the ESAF, transparency at the Fund, and social

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[8]Members that have published program documents have not necessarily published all of the documents for the current program. For example, many members with ESAF arrangements have published PFPs but not the associated LOIs or MEFPs. In some cases, program documents are released by the authorities but authorization for posting them on the Fund's web site has not yet been provided. In these latter cases, staff is approaching the authorities for such authorization.

[9] As of April 30, 1998, only 21 of 57 programs in place (37 percent) had either the LOI/MEFP or the PFP published, and only 10 programs had either LOIs/MEFPs or PFPs posted on the Fund's web site.

[10]The above does not preclude the release of a PIN following an ongoing discussion if deemed appropriate by the Board.

[11]See "IMF-Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment."

Table 3. Publication of Program Documents of Arrangements in Place on December 31, 1998 and Emergency and Post-Conflict Assistance Approved in 1998

(Bold text indicates that the documents are available on the Fund Internet web site)

	Published	Not Published
	Publication of LOI or MEFP	
SBA	**Brazil**, Estonia,[1] **Korea**, Latvia, **Philippines**,[1] **Thailand**. Total: 6	Bosnia-Herzegovina, Cape Verde, Djibouti, El Salvador, Uruguay, Zimbabwe. Total: 6
EFF	**Argentina, Bulgaria, Indonesia, Peru, Russian Federation, Ukraine**. Total: 6	Azerbaijan[2,3], Croatia, Gabon, Jordan, Kazakhstan, Moldova, Pakistan[2], Panama, Yemen.[2] Total: 9
ESAF	**Albania, Armenia, Benin**, Bolivia, **Georgia, Ghana, Guinea**, Nicaragua, **Rwanda, Uganda** Total: 10	Azerbaijan[2] , Burkina Faso, Cameroon, Central African Republic, Chad, Republic of Congo, Côte d'Ivoire, Ethiopia, Gambia, Guyana, Haiti, Kenya, Kyrgyz Republic, FYR Macedonia, Madagascar, Malawi, Mali, Mongolia, Mozambique, Niger, Pakistan[2], Senegal, Tajikistan, Tanzania, Yemen.[2] Total: 25
Post-Conflict and Emergency Assistance	**Dominican Republic, Haiti, Honduras, St. Kitts and Nevis** Total: 4	Bangladesh, Repubic of Congo, Sierra Leone, Tajikistan Total: 4
	Subtotal: 26	Subtotal: 41
	Publication of PFP[5]	
ESAF	**Armenia, Azerbaijan,[2] Benin**, Bolivia, **Burkina Faso, Cameroon, Central African Republic**, Chad, Côte d'Ivoire,[1] **Ethiopia, Gambia, Georgia, Ghana, Guinea**, Kenya, **Kyrgyz Republic, FYR Macedonia**, Madagascar, **Malawi, Mali, Mozambique, Niger, Pakistan,[2] Rwanda, Senegal, Tajikistan, Uganda**. Total: 27	Albania, Rep. of Congo, Guyana, Haiti, Mongolia, Nicaragua, Tanzania, Yemen.[2] Total: 10
Total (any documents)	45	22

Source: IMF staff (country desk economists).

1/ Only the text was published.
2/ Combined EFF and ESAF programs counted once for the subtotals and the overall totals.
3/ Azerbaijan published a PFP for the combined EFF/ESAF economic program.
4/ ESAF program documents are included as published in the totals if either the LOI/MEFP or the PFP is published.
5/ Unpublished PFPs are not available on the World Bank's web site either.

dimensions of the IMF's policy dialogue have also been released by the Fund both on the web site and in other media.

13. The Fund also reviewed its approach to external communications in June 1998 and considered next steps in this direction.[12] The IMF web site is evolving on a daily basis to provide instant and increasing access to a broadening range of Fund documents. Documents authorized for release by country authorities include LOIs/MEFPs and PFPs (see Section II.B) and communiqués and papers of groups of countries (such as the G-7, the G-24, and the G-22 working papers). In addition, the Fund's web site contains news briefs and press releases describing Fund-supported programs and other significant developments. Starting in the fourth quarter of 1998, the web site began to post concluding statements of Fund Article IV missions that member authorities have released to the public. As a part of its efforts to improve communication with the public more generally, the Fund has announced the contracting of external consultants to evaluate current practices and recommend improvements.[13]

14. The Fund has taken a number of steps to increase both external and internal evaluations of its activities. As noted above, the staff assessment—and related Board summing up—of the Asian crisis country programs was released in January and external evaluations of Fund surveillance and research activities in the Fund are underway.

15. The Fund has also taken steps to disclose more information on its financial operations. It has started to publish on the Fund's web site detailed information on its liquidity position and members' financial positions in the Fund, and will be well placed to disseminate data on members' Fund-related reserves and projections for repurchases and repayments in line with the eventual improvements to the specifications of the SDDS for the disclosure of international reserves data.[14]

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[12]See the Fund's Approach to External Communications—Next Steps (SM/98/53, 6/22/98) and the Acting Chairman's Summing up (BUFF/98/65, 7/16/98).

[13]The project announced in December 1998 will take about six months and consists of two parts. First, the consultants will conduct a survey to measure perceptions and gauge thinking about the IMF among policy makers, the media, academics, the corporate sector and representatives of civil society in a range of countries broadly representative of the IMF's membership. Second, the consultants will evaluate the methods and instruments that the Fund currently uses to explain its purposes, work, and processes, and make recommendations on how these might be improved.

[14]In October 1998, the Fund began making public aggregate information on the Fund financial position and calculation of its usable resources, updated monthly and posted on the web site with a lag of less than a week (News Brief No. 98/41, November 5, 1998). The details of members' financial positions in the Fund, including the amounts and undrawn balances under arrangements (for those with outstanding

(continued...)

16. Finally, the staff has proposed options for consideration by the Executive Board for a reduction in the waiting period for access to the Fund's archives.[15]

III. NEXT STEPS IN PROMOTING GREATER TRANSPARENCY

17. Since the July transparency discussion, debate on the value of the timely release of information on the authorities' policies and the Fund's assessment of them has continued in light of developments in emerging markets. The view has been expressed by the G-7 and the G-22 Working Group on transparency that there should be a general presumption in favor of the release of information by international financial institutions—including the Fund—except where release might compromise confidentiality (Box 2). The G-22 report has also called for international financial organizations to establish, publicly announce and periodically revisit, a well-articulated definition of the areas to which confidentiality criteria should apply, and the criteria for applying it (see Appendix III, section 4.2). However, the concept of confidentiality is not defined in the report nor are criteria proposed for its determination. Executive Directors at the Fund and the reports prepared in other fora arguing for greater transparency of the Fund's views have at the same time expressed concerns about the limits to transparency. A shift by the Fund further in the direction of increased transparency raises complex issues discussed extensively by the Board in other discussions on the release of staff reports, LOIs/MEFPs, and PINs for UFR.[16] These are summarized briefly in the following paragraphs.

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[14](...continued)
arrangements) and annual data on purchases and repurchases are also now posted on the web site, making this information available to the public with shorter lags and in a more convenient form. It is intended to expand further the publication of data on members' positions in the Fund, for example, by including detailed projections of members' obligations to the Fund, and to improve further on the timeliness of published information.

[15]See "A Review of the Fund's Archives Policy" (document to be issued).

[16]See "Summing Up by the Chairman—Biennial Review of the Implementation of the Fund's Surveillance Over Members' Exchange Rate Policies and of the 1977 Surveillance Decision" (SUR/97/38, 4/3/97); Summing Up by the Acting Chairman—Review of Members' Policies in the Context of Surveillance—Lesson for Surveillance from the Asian Crisis (SUR/98/39) and see "Transparency in Members' Policies and Fund Surveillance (SM/98/171, 7/2/98) and the Summing Up by the Acting Chairman (SUR/98/91).

Box 2. Views on Enhancing Fund Transparency

There have been calls for greater transparency:

- "We call upon...all IFIs to adopt a presumption in favor of the release of information, except where release might compromise confidentiality." (G-7 Communiqué, 10/30/98, paragraph 18).

- "...Fund policies should provide that full written summaries on a broader range of Executive Board meetings are made available to the public by issuing PINs following a discussion of an IMF program or program review in which there is a LOI, Memorandum of Understanding (MOU), or PFP; changes in general Fund policy; and Article IV consultations. Fund policies should make provision for the timely release of LOIs, MOUs, or PFPs following Board consideration." (Memorandum to the IMF Managing Director and members of the Executive Board from the Executive Directors of the G-7 Countries, 10/30/98).

- "There is a growing awareness that public institutions, including the IMF and other IFIs, need to enhance their accountability through greater transparency about their operations, objectives, and decision-making processes." "...the IMF should adopt a presumption in favor of the release of information, except where release might compromise confidentiality." (Memorandum to the IMF Managing Director and members of the Executive Board from the Executive Directors of the G-7 Countries, 10/30/98.)

- "We recommend that...IFIs adopt a presumption in favor of the release of information, except where release might compromise confidentiality." (G-22 Transparency Report, 10/5/98, page 26)

- "Greater transparency of the IMF's views could help persuade national authorities to take pre-emptive action." "...and thereby enhance the ability of the IMF to maintain stability in the international financial system." (G-22 Transparency Report, 10/5/98, page 27)

However, concerns have also been raised in these and other fora about the implementation of greater transparency:

- "that the release of [Fund] documents could compromise the quality and usefulness of the consultation process and the frankness of reports to the Executive Board"; (see G-22 Transparency Report, 10/5/98, page 28).

- "The release of the IMF's views could also raise moral hazard problems: If the IMF disclosed communications with national authorities, investors and creditors might rely on the IMF to issue warnings and identify risks instead of undertaking their own analysis" (see G-22 Transparency Report, 10/5/98, page 27).

- "premature disclosure of information that remains sensitive might interfere with policy implementation" (see G-24 Communiqué; 10/3/98, paragraph 15).

18. There is tension between the role of the Fund as confidential advisor to members and a desire for increased transparency that would come into play in a move toward a presumption in favor of the release of more information by the Fund. The difficulty, as always, will be to strike an appropriate balance between transparency and confidentiality. The case for greater transparency has been based, in part, on the need to enhance the accountability of the Fund and other international financial institutions. Greater transparency of the Fund's assessments of economic developments in member countries could also help persuade national authorities to take pre-emptive or corrective actions or prompt peer pressure to do so. In addition, some private sector entities have called for more regular mechanisms for the exchange of views on macroeconomic developments between the representatives of private financial institutions and member country authorities as a means of providing information to inform risk assessment.[17] The release of the Fund's views on macroeconomic developments in member countries could make a contribution to the substance and effectiveness of such discussions and respond to calls for an exchange of views between the staff and market participants. Finally, as the scrutiny of the Fund's analysis and views increases through release of documents to the public, incentives to ensure the highest quality of reports would be strengthened.

19. Attempts to improve transparency through the release of Fund country documents would need to preserve confidentiality. A central question is whether and the extent to which publication of staff reports on country matters would alter the openness of discussions and the candor of the reports. That is, the advantages of greater transparency in this area would need to be weighed against the potential difficulties raised for obtaining confidential information, engaging the authorities in open dialogue on policy issues and options, and persuading them to respond to Fund advice if that information, the contents of the debate and the Fund's assessments were made public. Publication as a rule ought not lead the staff to downplay key but controversial issues in drafting reports; indeed, the prospect of outside review could serve as an incentive for openness and enhance accountability. However, there will be inevitable pressures to draft assessments in a more politically sensitive manner.

20. Other issues particularly relevant to emerging-market countries include the timing of the release of documents and concerns that the release might contribute to the precipitation of an otherwise avoidable crisis. In addition, the weight attached to Fund views in smaller developing and emerging market countries as compared to the cases in large advanced countries, could conceivably have significant consequences. Many of these issues can be addressed through appropriate policies on confidentiality and the timing of release of the information. An approach of voluntary release, in the context of periodic reviews of the

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[17]For example, see *Report of the Working Group on Financial Crises in Emerging Markets*, Institute of International Finance, Inc., January 1999. Indeed, such exchanges of views already taken place began between the authorities of several Latin American emerging market countries and private sector representatives.

experience, would seem to offer a vehicle for orderly transition toward a presumption in favor of the release of information.

21. Against this backdrop, this section discusses next steps for consideration by Executive Directors. The staff's proposals for greater transparency for Fund policies are summarized in Box 3 and discussed below.

Box 3. Further Steps in Promoting Greater Transparency

The following measures are proposed for consideration by Executive Directors as next steps in promoting greater transparency in surveillance, use of Fund resources, and other activities.

Surveillance

- Continue to actively encourage the release of PINs following Article IV consultations for all members, again reviewing the experience in one year.
- Authorize the voluntary release of Article IV staff reports and review the experience in one year. Modifications to staff reports would be guided by the same policy as is used for PINs, that is, deletions would be minimal, limited to highly market-sensitive information, mainly Fund views on exchange rates and interest rate matters.

Use of Fund Resources

- Continue to strongly encourage the publication of LOIs/MEFPs and PFPs, particularly in cases which require continued access to private markets.
- Release the concluding remarks of the Chairman in press releases on programs. Authorize the voluntary release of summings up after a period following the Board discussion of a program.
- Authorize the voluntary release of staff reports for UFR and review the experience in one year. As with staff reports for surveillance deletions to UFR reports released would be minimal and follow the same policy currently used for PINs.

Fund Policy Discussions

- Provide a mechanism for implementing the Executive Board's decision to consider the release of PINs for discussions of policy papers.

A. Promoting Enhanced Transparency in the Context of Surveillance

22. The high and increasing rate of release of PINs following Article IV consultations suggests that the current approach of voluntary release is showing success.[18] In light of the positive experience so far, the staff would suggest continuation of the current policy, with a view to again reviewing the experience with PINs following Article IV consultations in one year. Periodic reviews by the Board of PINs and PIN policy would help to assure that the momentum for openness in this area continues without sacrificing the candor of the Fund's message conveyed in the Chairman's Summing Up in order to make it easier for country authorities to agree to issue a PIN.[19]

23. The staff also proposes that the Board decide to authorize release of Article IV consultation staff reports on a voluntary basis, [20] followed by a Board review of the experience in one year. In general, the Board has not authorized the release to the public of staff reports for Article IV consultation or UFR.[21] However, authorized outside distribution of Article IV consultation reports is not entirely unprecedented. Under the enhanced surveillance procedures, which allow the provision of Article IV reports (and the half-yearly reports) to a member country's private creditors, Article IV staff reports have in a few cases been shared with relevant private creditors; this is, however, subject to strictures on confidential use.

24. There is not much experience from which to draw lessons that would be relevant to this proposal. The arguments in favor of and against the release of Article IV staff reports are essentially those summarized above (see paragraphs 19–21). In addition, there is also evidence

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[18]This was the assessment in the context of the July 1998 review of PINs (see SUR/98/91) which has also been supported since that time by the staff's reports of positive experiences from various authorities in using PINs. Public feedback on PINs is provided in the appendix to "The Fund's Approach to External Communications—Next Steps" (SM/98/153, 6/22/98).

[19]While the number of modifications to the summing up portion of the PIN has fallen (see paragraph 9) there remain some risks that summings up may become less candid and comprehensive. The July 1998 review of PINs served to reinforce the policy on deletions and the emphasis on candor.

[20]Under Article XII, Section 8, the "Fund may, by a seventy percent majority of the voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments." The consent of the member involved is not necessary. However, where the Fund's views do not include such content, publication would require a majority of the votes cast in the Board and the consent of the member involved.

[21]For instance, recent requests for the release of staff reports have been advanced by the Colombian, Portuguese, Slovenia, Swiss, and U.S. authorities.

that reports are sometimes—perhaps often—available to some market participants so that a general release might serve to level the playing field. Authorization for the release of Article IV staff reports, at the request of a member, would respond to requests by a number of members and would represent a step toward a general presumption in favor of the release of information. However, Directors' concerns for issues of confidentiality and the treatment of market-sensitive information would need to be addressed.[22]

25. The PIN process offers a model for addressing issues of confidentiality which are raised by member countries when considering the release of Article IV staff reports. Following current procedures for the release of PINs, deletions from staff reports would be minimal, removing only highly market-sensitive information, mainly Fund views on exchange rate and interest rate matters. It would be essential to avoid the public version of a staff report becoming a negotiated document, as has become the case for some documents published by other international organizations, and the expectation would be for the release of the document with minimum changes, if any. If Directors agree that a move in this direction is desirable, the Board's support for resistance to changes beyond the agreed criteria would be important. In this regard, the staff proposes that all changes in published staff reports be reported periodically to and the experience reviewed by the Board in a year.

B. Increasing Transparency and Use of Fund Resources

26. Directors have expressed divergent views regarding the issuance of PINs in a program context. During the July 1998 transparency discussions, some Directors saw merits in providing the Fund's assessment of the authorities' program to the public in the context of the use of Fund resources. Other Directors considered the release of possibly sensitive information of this nature as potentially weakening the signal of support coming from the decision to approve the arrangement (or complete the review) and as interfering with policy implementation.[23] More recently, in October 1998 the G-7 Executive Directors called for PINs following a discussion of a Fund program or program review (see Box 2). However, concerns for the release by the Fund of its views on the sustainability of members' policies have been raised by other Directors and also flagged in other fora.[24]

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[22]See "Summing Up by the Chairman – Biennial Review of the Implementation of the Fund's Surveillance Over Members' Exchange Rate Policies and of the 1997 Surveillance Decision" (SUR/97/38, 4/3/97).

[23]See "Work Program on Strengthening the Architecture of the International Monetary System" (memo to the Managing Director from G-7 Executive Directors, 10/30/98).

[24]For instance, both the Communique of the Ministers of the Intergovernmental Group of Twenty-Four and the report of the Working Group on Transparency and Accountability noted the conflicts and challenges—in particular for the Fund—in terms of the transparency of IFI views about the sustainability

(continued...)

27. The Fund now strongly encourages the publication of PFPs and LOIs/MEFPs by the authorities. The publication of PFPs, which discuss policies in more general terms than is typically the case for LOI/MEFPs, is reasonably well established. The release to the public of LOIs/MEFPs—which contain more detail, including monitoring criteria for disbursements—has been less extensive. The staff considers that the Fund should continue to strongly encourage the publication of LOIs/MEFPs and PFPs, particularly in cases which require continued access to private markets. Board publication of such documents would increase transparency, would lead to wider public and market understanding of programs, and would be consistent with the recommendations in other fora.

28. An approach which envisages an increasing release of LOIs/MEFPs and PFPs is not without some of the potential problems discussed above. Broader publication of such documents may also risk that countries will delay even further their approach to the Fund out of concern that the extent of the macroeconomic imbalances become known. In addition, as raised by several Directors in the July 1998 discussion of transparency, a move to increased release of program documents could risk a greater use of side letters, potentially undermining the benefits from increased openness. It will be important to avoid any tendency toward unwarranted use of side letters, and a forthcoming staff paper will review the experience with side letters, discuss their role, and make recommendations for their future use in the context of use of Fund resources.

29. As noted, suggestions have also been made for improving the dissemination of information to the public on Fund assessments of the authorities' programs, possibly through the release of summings up or a PIN for UFR cases.[25] However, there are problems in releasing PINs/summings up in the context of UFR, which may not arise (or arise so clearly) in release of PINs following Article IV consultations. First, Fund views may be accorded greater weight and could conceivably have more significant economic and political consequences in the program context than in the case of Article IV discussions; a summing up may capture concerns over particular aspects of economic policies or the outlook which, despite the Fund's preparedness to support the program as a whole, may have a potentially negative impact on markets. Second, the early release of information may be important to the markets' reaction to the program. Under established procedures, however, summings up take

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[24](...continued)
of member's policies.

[25]The summing up process originated in the context of Article IV consultations. The Board favored a mechanism that would allow the Board's considerations to be captured in a less formal manner than a decision, and which provided sufficient scope for identifying the views expressed by Directors. This is in contrast to a UFR situation, where a decision is adopted. If the Chairman were to deliver a summing up in a UFR situation, the summing up would be in addition to a decision. While, traditionally, there has been no summing up in addition to the decision for a Board discussion on a UFR, there have been some instances in which the Chairman summed up or made concluding remarks.

time to clear with country authorities and put in final form.[26] Finally, a balanced summary of the Board discussion, in which differing views are typically expressed—and intended in the first instance to convey the sense of the Board to the member as to where Directors may see the need for additional action or special attention to emerging developments—might carry the risks of undermining market confidence in a program. This would amount to a change—for Fund watchers—from the current practice of presenting a solid front of support for programs the Board has just approved.

30. A possible alternative to summings up/PINs would be to consider the release of concluding remarks by the Chairman in press releases on programs following discussions for use of Fund resources. This approach has been discussed on occasions in the past and issues of policies and modalities became evident. However, in light of the problems with summings up, the staff proposes further consideration of an option along the lines offered below. The idea would be to supplement the usual press releases on Board-approved credit arrangements with a short commentary by the Chairman on the two or three major points of the discussion. The Chairman could lay out the essential points of such a commentary at the conclusion of the Board discussion. Such a move would facilitate the timely release of information on the Board's overall policy message and guidance to the member, along with the factual information on the objectives of the program and the decision to approve it, without attempting to summarize the discussion as a whole.[27] In addition, it may be useful to consider whether it would be helpful to authorize the release of the summing up after a period of time. The advantage of this approach would rest in the provision of more complete information of the Board's views to the markets, while avoiding the logistical and possibly some of the policy problems associated with efforts to release summings up/PINs immediately. Nevertheless, care would need to be taken not to play into the vulnerabilities which potentially arise from the uncertainties facing countries requiring access to private markets for a period of time following Board approval of a member's program. This would call for case-by-case consideration of the appropriate timing of the release of the summing up in the context of developments in the member country and in the global environment as well.

31. The Board has also considered the release of staff reports in the context of UFR. In the discussion of transparency in July 1998, a number of Directors suggested that it would be useful to permit a member to release the full staff report supporting the member's request for use of Fund resources on a voluntary and case-by-case basis, with the deletion of any market-

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[26]To illustrate the latter, in a recent case the Board agreed to release a summing up following the completion of a review of a Fund-supported program pending approval by the authorities. However, agreement could not be reached between the staff and the authorities due to timing and confidentiality issues and the PIN was not released.

[27]The news brief would not require clearance by the Board or the Executive Director of the country concerned.

sensitive information. However, a number of other Directors expressed reservations of such a move given the importance of preserving the Fund's role as confidential advisor.

32. The staff also proposes that the Board authorize the voluntary release of UFR staff reports, preferably in conjunction with the release of LOIs/MEFPs and PFPs, particularly by members requiring access to private capital markets, as an important transparency-enhancing step in this area. As the classes of involved creditors become more diffuse, restricted release of reports (as under enhanced surveillance), or through leaks as has happened in some instances, does not level the playing field and a general release would be preferred. A better and more timely discussion of a country's policies should help reduce uncertainty for market participants and help them to price risk more appropriately. As with staff reports for surveillance, it is proposed that the treatment of confidential information in published UFR staff reports would follow the guidelines for PINs, and that there would be a review of the experience of voluntary release of UFR staff reports in one year.

C. Transparency and Fund Policy

33. To communicate effectively the Board's views on policy issues, it seems desirable to establish a process under which the Board can consider the release of policy PINs more systematically. In this regard, the staff proposes that the Chairman solicit the views of Executive Directors concerning the desirability of a PIN at the conclusion of a policy discussion. The decision to release a PIN after a policy discussion would be made on a case-by-case basis; but an important factor would be whether the Board discussion has been conclusive, in which case the staff suggests that there be a presumption that a PIN will be issued, or whether the topic remains for further substantive consideration. In cases where it has been decided to have a PIN, it would be based on the executive summary of the paper and the Board's summing up the Chairman's concluding remarks.

IV. Issues for Discussion

34. Directors' views are requested on the suggestions for further steps in promoting greater transparency in Fund surveillance, use of Fund resources, and other activities as outlined in Box 3.

35. *Concerning the voluntary publication of staff reports and confidentiality issues, what are Directors' views on the merits of guiding modifications to staff reports by the same policy as is currently used for PINs, that is, deletions would be minimal, removing only highly market-sensitive information?*

36. *Given the logistical and policy problems raised concerning the release of UFR-PINs (see paragraphs 29 and 30), what are Directors' views on the proposed alternative to include the concluding remarks of the Chairman in the press releases following UFR Board*

discussions and to consider authorization of the voluntary release of summings up after a period following the Board discussion of a program.

PUBLIC INFORMATION NOTICES: CHANGES FROM SUMMING UP[1]
MAY 1, 1998 – DECEMBER 31, 1998

Croatia Directors commended the authorities for the success so thus far of their exchange-rate-based stabilization efforts. Real growth had remained robust since 1994, inflation had stayed low, and international reserves had increased. In addition, Directors welcomed the efforts to advance structural reforms, most recently in the area of rehabilitating the state-owned banks and moving ahead with voucher privatization. However, many Directors stressed that Croatia now faces a difficult external economic situation that requires decisive and early corrective action.

Directors expressed serious concern about the unsustainably large current account deficit in 1997. They noted that rapid growth in wages and bank credit, as well as *poor overall state enterprise performance and an expansionary fiscal stance, had* contributed to this outcome. Directors were also concerned about emerging difficulties in the banking sector and the sluggishness of structural reform in several areas, most notably in the enterprise sector. Against this background, while welcoming the measures undertaken thus far by the authorities, Directors agreed that more decisive measures needed to be taken quickly.including macroeconomic adjustment and acceleration of public enterprise restraint and restructuring, and banking sector reform.to ensure the sustainability of Croatia's external position and to promote macroeconomic stability and durable growth.

As regards fiscal policy, Directors welcomed commended the authorities' fiscal consolidation efforts. Nevertheless and resolutenesa in introducing the single rate VAT at the beginning of the year. However, several Directors were concerned that the authorities' policy package for 1998 did not go far enough to return the current account of the balance of payments to a sustainable path, while some other Directors did not regard the fiscal policy stance as the root cause of the problems. Nevertheless, Directors saw further fiscal adjustment as the most appropriate available means to help bring about the needed external adjustment. Moreover, Directors noted that the likely cost of financial sector reforms assumed by the government would require offsetting measures to prevent a deterioration of the fiscal situation.

Directors cautioned that the need for fiscal adjustment will be even larger if it is not accompanied by greater financial discipline in the public enterprise sector. They urged faster progress on privatization as it was the best way to improve

[1]This section is based on a comparison of the finalized summings up and the PIN as issued. It highlights only those paragraphs of the summings up in which changes were made.

corporate governance, particularly when it involved strategic investors. In the interim, Directors supported the placing of limits on borrowing by the state enterprise sector, while at the same time seeking to lower operating costs and improving the monitoring and evaluation of borrowing and investment plans. There was some concern that public enterprise foreign borrowing may be perceived by some lenders and borrowers to carry an implicit government guarantee.

Directors underscored the need for a firm grip on wage policy, in both in the budgetary sphere and in the state enterprise sector. They noted that wage restraint in the budgetary sector will be very important, not only for its demonstration effects, but also because of the limited room for maneuver elsewhere in the budget in the context of heavy demands for social spending and reconstruction. In this regard, Directors were concerned that the 1999 government wage bill was already poised to increase significantly as a result of carry-over effects. This unfortunate outcome could only be avoided through meaningful civil service reform and retrenchment. Directors also supported strict implementation of a wage freeze in the state enterprise sector to safeguard against an unwanted erosion of competitiveness and profitability.

Turning to financial matters, Directors expressed concern about recent stresses in the banking sector. They advised the authorities not to prolong the operations of to close unviable banks, but rather to close them within the context of a unified market-based banking strategy. Directors were also troubled by the rapid expansion in bank credit which, coupled with the large-scale foreign borrowing, had effectively removed hard budget constraints on the nongovernment sector and could increase Croatia's vulnerability to shifts in market sentiment. While welcoming the measures taken since September to tighten the monetary stance, Directors thought that monetary policy might may need to be tightened further to support external adjustment within the framework of keeping the exchange rate within narrow bands bounds. In this context, Directors cautioned that providing liquidity to unviable banks would be inconsistent with overall monetary and external objectives, as well as with sound banking principles. Directors welcomed the implication indication that the authorities are prepared to take corrective measures if needed.

Directors welcomed the preparation of the new banking law and urged the authorities to accelerate its introduction. This law would help promote independence and authority of the supervisory and regulatory functions, and would be an important element of a unified market-based banking strategy. In addition, Directors stressed the urgent need to further improve the central bank's internal supervision capabilities and strengthen enforcement of prudential and

monetary policy regulations, noting the various measures already taken by the Croatian authorities in this respect.

India Executive Directors noted that, following three years of impressive performance, output and export growth had slowed, and inflation had increased. However, notwithstanding these increased strains and despite the Asian financial crisis, real GDP growth remained significantly positive, the balance of payments position satisfactory, and foreign exchange reserves relatively comfortable. Directors, therefore, commended the authorities for these achievements, welcoming especially the increased flexibility of monetary policy and the authorities' intention of proceeding with the economic liberalization process, after some recent loss of momentum.

Directors stressed, however, that the near-term situation still contained substantial risks, and that the reform agenda was far from complete. Although contagion from the regional crisis and cyclical factors had contributed to the recent slowdown in industrial production and exports, Directors also pointed to a number of fundamental structural constraints affecting growth; these were compounded by uncertainties created by the political situation and international economic sanctions. Against this background, Directors cautioned that the authorities' strategy of orienting fiscal and monetary policies toward supporting domestic demand could risk further straining macroeconomic stability, and suggested that a stronger macroeconomic stance would help restore low inflation and improve market sentiment. They also emphasized that reinvigorating the momentum of investment and growth would require bold policy steps to convince markets of the comprehensive character and consistency of reforms.

In this context, Directors expressed concern that the public sector deficit cannot be sustained at its current high level without heavy costs to the country's long-term economic prospects. They also expressed doubts whether the modest reduction in the fiscal deficit targeted for this year will be achieved, pointing to possible slippages in both the revenue and expenditure estimates. Moreover, they observed that the reversal of certain budgetary initiatives ~~and other recently enacted measures~~ run the risk of further undermining the credibility of the fiscal policy stance. Thus, Directors welcomed the authorities' commitment to take additional steps to ensure that the 1998/99 fiscal objectives are met, and stressed that this should be done through measures that would also strengthen the medium-term fiscal reform process.

Looking beyond the 1998/99 budget, Directors urged the authorities to launch an ambitious and front-loaded medium-term fiscal adjustment program, involving actions not only by the center, but importantly also, by the states. Reviving the

fiscal reform process would help lower real interest rates, improve debt dynamics, create room for meeting essential social and infrastructure spending, and reduce the drag on growth. While supportive of the reduction in tax rates implemented over the last few years, Directors noted that these reductions were not matched by an expansion of the tax base. In this regard, Directors saw considerable scope for improving tax administration and widening the tax base, in particular by eliminating costly tax exemptions mainly in the agricultural and export sectors. Directors noted the importance of reducing unproductive expenditures, by curtailing subsidies and reducing public sector employment, as well as generally improving cost recovery and public expenditure management. In this context, they also stressed the critical importance of improving expenditure allocation toward priority social sectors ~~such as education~~, especially primary education and health, and away from ~~military~~ ~~unproductive~~ spending. Expressing concern about the lack of any perceptible fiscal adjustment by the states as a group, Directors stressed that states will need to intensify and broaden efforts to lower deficits, and also improve the composition of spending. In this connection, Directors commended the actions taken recently by the government of Andhra Pradesh and a few other states, in conjunction with the World Bank, to strengthen their finances, and hoped that other states would emulate them. They saw scope for the central government to encourage the process by enhancing incentives for adjustment, and welcomed the government's commitment to changing the present revenue-sharing formula.

With the fiscal deficit still too high, Directors noted that monetary policy would continue to bear a heavy burden in ensuring macroeconomic stability. Directors stressed that monetary policy should be firmly focused on a low inflation objective and, from this perspective, they cautioned against a premature easing of the recently tightened monetary stance and further monetization of the deficit.

Directors commended the authorities for maintaining orderly conditions in the foreign exchange market, while allowing market forces to determine the exchange rate. They emphasized, however, that if significant and sustained downward pressure on the rupee were to re-emerge, interest rate policy should again be actively used to resist overshooting of the exchange rate. Directors also cautioned against relying on administrative measures to limit foreign exchange demand and curb speculation.

Directors welcomed the new government's intention to push the reform agenda across a range of fronts, including privatization, infrastructure, insurance, and foreign direct investment, and urged quick implementation of these initiatives. Directors noted the room that still exists for simplifying the regulatory framework, enhancing transparency, and thereby facilitating investment decisions. Noting the still high level of protection in India, Directors underscored that

considerable efficiency gains could be reaped by accelerating trade liberalization, including through further tariff cuts and a more rapid elimination of remaining quantitative restrictions on consumer goods. In this connection, they strongly urged the removal of the additional 4 percent import duty imposed in the recent budget. Directors also strongly encouraged the authorities to develop a consensus to allow the elimination of the policy of reserving items for production by the small-scale sector which acts as a drag on accelerating exports, revise existing labor laws, and set in place an effective exit policy to facilitate not only the redeployment of resources across sectors, but also encourage employment generating activities.

Directors welcomed the strategy for financial sector reforms outlined in the recent Narasimham Committee report. They urged the authorities to accelerate implementation of these reforms, noting that the experience of other Asian countries had shown that the costs of delaying such reforms could be extremely high, and recommended the early adoption of internationally accepted standards. Directors also stressed that far-reaching changes in public control and management of state-owned banks would be required to facilitate the entry of private capital, and thus to avoid further burdening the public debt outlook. Furthermore, it will be critical to establish effective procedures for containing and addressing the difficulties of weak financial institutions. Some Directors emphasized the crucial importance of a fully independent Reserve Bank of India. Directors encouraged the authorities to persevere with the phased opening of the capital account, particularly the further liberalization of foreign direct investment and portfolio equity flows.

Directors urged that the remaining exchange restrictions subject to approval under Article VIII be eliminated without delay. Directors welcomed the stepped-upefforts to address data shortcomings with the decision to subscribe to the Special Data Dissemination Standard. They underscored that updating statistical methods and enhancing the coverage and general quality of many data series will be critical to providing more timely and reliable guidance for macroeconomic policy decisions.

Ireland Executive Directors commended the authorities for Ireland's impressive economic performance, as evidenced by five consecutive years of vigorous growth in activity and employment, a strong fiscal and external position, and, until recently, a low rate of inflation. Directors emphasized the important role that good economic management had played in sustaining this favorable performance and ensuring Ireland's participation in EMU from its inception. While most Directors shared the view that short-term macroeconomic prospects remained generally favorable, some expressed concern that the worsening in the global environment

would, if sustained, have a significant adverse effect on Ireland, given the openness of its economy.

Directors noted that the authorities were now confronted with some new, and difficult, policy challenges. These stemmed in part from the comparatively advanced stage of the business cycle in Ireland, which was reflected in the emergence of signs of overheating, as well as a sharp rise in asset prices and increased wage pressure in the public sector. But the challenges were being compounded by the competitive exchange rate that Ireland appeared appears likely to enjoy at the onset of EMU, and the prospective downward convergence of Irish short-term interest rates to the much lower rates prevailing in the core EMU countries. In this regard, Directors underscored the need for adequate and timely responses to these challenges in order to keep the economy on a path of sustainable growth in output and employment, with price stability over the medium term. Directors considered the main policy requirements to be, first, a tightening of fiscal policy to offset the stimulus to demand from the easing of monetary conditions; and, second, continued emphasis on structural reforms in order to alleviate labor and other supply constraints.

Directors welcomed the authorities' commitment to allow the unanticipated buoyancy of revenue in 1998 to be reflected in a higher than budgeted surplus, but stressed the need for tight expenditure restraint to ensure that the fiscal stance in 1999 would contribute to the containment of inflationary pressures. Directors agreed that the recent progress in streamlining the tax system and reducing tax relief needed to continue. Most Directors thought that, in the short run, room for lowering the income tax burden might be limited unless there was firm evidence that excess demand had been eliminated. In any case, Directors noted that, were income tax cuts to be enacted in 1999, these should be directed to strengthening work incentives for the low paid in order to help ease labor shortages and improve prospects for wage restraint.

Directors welcomed the authorities' intention to seek to extend the social partnership arrangements which had worked well in the past, but they stressed the critical importance to a satisfactory new social contract of resisting ongoing claims from various groups of public employees for large pay increases. Such increases could undermine continued cost moderation in the economy, and are inconsistent with the continuation of the impressive employment and economic gains of recent years.

Directors agreed that keeping public spending in check was the key to ensuring a sizeable fiscal surplus over the medium term. Such a surplus, they stressed, would facilitate compliance with the Stability and Growth Pact and provide room for fiscal flexibility, as warranted in view of the loss of monetary autonomy.

Moreover, it would allow Ireland to make early progress toward addressing longer-term pressures on the public finances associated with the aging of the population and the unfunded contingent liabilities of the current pay-as-you-go public pension system. Directors urged the authorities to take the opportunity afforded by buoyant economic conditions to incorporate at least the full accruing costs of public service pension liabilities in future budgets.

Directors expressed concern about the rapid growth of credit to the private sector, which had contributed to the recent strength of consumer spending and the escalation in housing prices. In view of this concern, they understood the authorities' reluctance to lower short-term interest rates rapidly, and welcomed the measures recently taken to cool off the housing market and strengthen the supervision of financial intermediaries. A few Directors stressed, however, that additional efforts were called for in both areas.

While praising Irelands' recent outstanding record in creating jobs, Directors stressed the need for further progress in increasing labor market flexibility, in order to sustain the downward trend in unemployment and facilitate macroeconomic adjustment in the event of adverse shocks in the future. Most Directors emphasized, also, the importance of enforcing strict conditionality requirements for unemployment benefits, particularly for young workers. They also pointed out that the continuing high levels of long-term and youth unemployment make it critical that a minimum wage, if introduced, be appropriately differentiated to minimize possible adverse employment effects on those categories.

Directors commended the authorities for their ongoing efforts to increase competition in the economy, including through an accelerated privatization program. They also welcomed the recent decision to move gradually toward a unified corporation tax rate.

Directors noted the recent increase in Ireland's official development assistance and encouraged the authorities to increase further their development assistance. Directors stressed the need for improvement in the area of statistics, particularly the coverage of wage trends and capital account transactions.

Jamaica Executive Directors noted that since the last extended arrangement with Jamaica expired in March 1996, inflation had been reduced sharply through the implementation of a tight monetary policy and the maintenance of a stable exchange rate. However, Directors expressed concerns that, over the same period, the public sector balance had shifted from a surplus to a large deficit, and the mix of policies had resulted in very high real interest rates, a substantial real

appreciation of the currency, and declining output. ~~Moreover, high real interest rates and the decline of output had brought to the surface~~ ~~In the circumstances, long standing~~ problems in the financial system ~~were brought to the surface~~.

Directors were of the view that the current mix of policies risked undermining the authorities' objective of achieving output and employment growth over the medium term. In that regard, they stressed that the adoption of a comprehensive ~~program of actions in fiscal, incomes, and exchange rate policies~~ ~~macroeconomic program~~ and a further deepening of structural reform efforts would be critical for achieving lasting macroeconomic stability and for placing the Jamaican economy on a path of sustainable economic growth over the medium term.

Directors agreed with the authorities that restoring a stronger fiscal position would be a central element in rebalancing the anti-inflation effort. To that end, the government would need to contain spending and press ahead with its efforts to improve tax administration in order to achieve the targeted central government deficit. However, Directors shared the staff's concerns that the revenue projections in the budget are ~~overly~~ ~~very~~ optimistic, and that wage and interest payments may be underestimated. They urged the authorities to stand ready to reinforce their ~~announced~~ fiscal ~~efforts~~ ~~actions~~ by introducing additional tax measures, eliminating tax exemptions, and taking steps to reduce expenditures so as to adhere to their fiscal objective. Directors also noted that a stronger fiscal effort was needed to help meet the interest obligations stemming from the difficulties of the financial system.

Directors noted the authorities' recent success in raising medium-term resources from international capital markets, and underlined the importance of using those resources to amortize existing debt. They stressed that prudence would need to be exercised to avoid an increase in Jamaica's external debt burden.including by guaranteeing private sector borrowing.a shortening of its maturity structure, or an undue increase in its cost. Directors indicated that Jamaica needed a strong fiscal position to meet its debt-service obligations, together with an aggressive privatization program to reduce the stock of debt.

Directors noted that the government had managed the problems of the financial system in a way that had avoided a collapse of depositor confidence, but at a very high cost in terms of the public sector's support to the system. Directors were of the view that the Financial Sector Adjustment Company (FINSAC) needed to complete the process of dealing with weak financial institutions so as to proceed to the stage of returning a sound financial system back to private sector management. Directors noted the planned reduction in the cash reserve requirement and that continued reductions of legal cash reserve and liquidity requirements would increase the interest of new investors and facilitate the

restructuring of the system. Directors welcomed the progress that had been made in strengthening banking system supervision and encouraged the Bank of Jamaica to strengthen supervision of institutions controlled by FINSAC. The supervision of insurance companies also needed to be strengthened.

Directors noted that the Jamaican economy faces serious competitive problems, as reflected in the current account of the balance of payments and the stagnation and decline of output in recent years. In addition, the current mix of policies has placed a heavy burden on monetary policy and has led to the high level of interest rates. While interest rates might need to stay high for some time as part of a comprehensive program of adjustment, the success of the government's strategy will ultimately be reflected in a decline of interest rates to levels conducive to the sustained growth of output and employment. While Directors agreed with the authorities that gradual adjustment of the exchange rate, combined with improvements in efficiency and productivity, could help improve the competitiveness of the Jamaican economy over the medium term, some Directors expressed the view that greater exchange rate flexibility ~~consistent with some depreciation of the currency in the near term~~ would be desirable, emphasizing that such a policy, combined with strengthened fiscal policy and wage restraint, would be essential to safeguard competitiveness over the medium term.

Directors were of the view that to achieve a lasting improvement in competitiveness, the government would need to address the critical issue of controlling nominal wages in the economy, especially in the public sector. In the end, Jamaica must find the right combination of political, social, and economic mechanisms to ensure that nominal wage setting in the economy was fully consistent with all aspects of its economic program.

To achieve medium-term viability, Jamaica would need to support short-term economic measures with a deepening of structural reform efforts. Those reforms, in addition to those affecting the financial system, should encompass decisive actions on the public sector, including the reactivation of the privatization program and the facilitation of private foreign investment. Actions to reduce employment in the public sector, accompanied by a reassessment of the economic role of the state, would be critical to that effort. Financing the short-term costs of a reduction of employment in the public sector would pose an additional challenge, which could be met in part by using part of the proceeds of the privatization effort for that purpose. Facilitating the participation of foreign investors in the privatization process would increase demand for the assets of entities to be privatized and improve the returns to the government.

Directors noted the weaknesses in Jamaica's economic data, especially with regard to the national accounts, and urged the authorities to strengthen the

statistical base, including through the use of technical assistance from the IMF and other sources.

Directors encouraged the authorities' intention to monitor closely developments in key economic variables with a view to strengthening policies, as warranted, and to maintain a continued close policy dialogue with the staff.

Japan

Executive Directors noted that the performance of the Japanese economy had been much weaker than anticipated at the conclusion of last year's consultation. In retrospect, the underlying momentum of the economic recovery in 1996 and early 1997 had not been sufficient to absorb the impact of increasing financial strains and the substantial tax increase, as well as the Asian crisis, in 1997. The recent downturn, and the related weakness of the yen, was especially worrisome since it had exacerbated economic difficulties elsewhere in Asia, including by adding to instability in financial markets. Moreover, growth is expected to be low in 1999, and the downside risks are considerable.

In these circumstances, Directors stressed the need for swift and decisive measures to reverse the deteriorating economic situation and place Japan back on a path of sustained domestic demand-led growth. Such action is essential for the Japanese economy, and equally essential to underpin a turnaround in the Asia region more generally, in view of Japan's crucial importance—as the world's second largest economy—to the region and to the global economy. While the government has taken a number of welcome initiatives, the overall response thus far has fallen short of the timely, comprehensive, and forceful program that is required, given the seriousness of the present situation. The critical need is for the early implementation of far-reaching measures to deal with the bad loan problem in the banking sector and restore the Japanese financial system to health. It is also vital for the authorities to ensure that fiscal support for the economy remains in place until the recovery takes hold. Action in both these areas is key to a restoration of domestic confidence and thereby a revival of growth. Pointing to the window of opportunity available to the new government, several Directors encouraged the authorities to make a decisive break from the past toward more aggressive action. In this regard, they welcomed the recent statements by the new Prime Minister suggesting that substantial tax cuts and spending hikes will be introduced ~~later this year~~—they considered these measures as important steps toward addressing this situation.

As regards the banking sector, Directors acknowledged the progress that had been achieved since last year, but noted that there remains considerable uncertainty regarding the extent of underlying balance sheet problems and the sufficiency of the authorities' strategy for achieving a comprehensive restructuring

of the banking sector. Continuing market doubts about the financial strength of banks left the economy vulnerable to a further deterioration in confidence, deflationary pressures, and a prolongation of the credit crunch. Bolder and more aggressive action is necessary, therefore, to deal decisively with banking system problems.

In particular:

- Rigorous enforcement of the self-assessment framework is needed so that banks recognize and provision against the full extent of bad loans. Several Directors suggested that these results be published for individual banks to increase transparency.

- Recapitalization of the core banking system would require linking injections of public funds to strong restructuring plans. Most Directors called for a more proactive approach to such restructuring than had been implemented so far. In this regard, some Directors noted that there had been only limited use of the available funds to this point.

- Aggressive efforts to resolve problem loans are needed, including placing these loans with specialized asset management units with strong incentives to maximize value. Improved institutional mechanisms for debt workouts, including the reform of bankruptcy laws, are also necessary.

- To be effective, the new "Bridge Bank" scheme would require transparent guidelines for new lending and steps to identify buyers for bridge banks on a timely basis.

- While the establishment of the new financial supervisory authority was welcome, it needed to be strengthened, by rapidly increasing its resources, providing independent funding, and enhancing its autonomy.

Notwithstanding the longer-term need for fiscal consolidation, most Directors stressed that the immediate priority for fiscal policy is to provide adequate support for aggregate demand. Several Directors remarked that the risks of a deepening recession outweighed the costs of a further temporary fiscal stimulus, noting that, unless growth is restored, the medium-term fiscal and debt dynamics could only worsen. Directors emphasized that, in view of the underlying weakness in domestic activity, measures would be required that were at least sufficient to avoid any withdrawal of fiscal stimulus in the next fiscal year. Indeed, a few Directors suggested that an even more expansionary fiscal stance is warranted. However, they underscored that, irrespective of the stance of fiscal policy, the desired recovery in confidence and activity would not be forthcoming without decisively addressing the challenge of banking sector reform.

With an eye to addressing the government's medium-term fiscal consolidation goals, Directors stressed that additional tax measures envisaged in the 1998 stimulus package should be consistent with improving the efficiency of the tax system and not have just one-off effects on activity. For example, reductions in tax rates for both individuals and corporations seemed warranted, given the high level of top marginal rates. Several Directors noted that consideration could also be given to a cut in the consumption tax—to be reversed once the recovery is fully established—to stimulate demand in the short term. Accompanying these cuts with a multi-year commitment to gradual base broadening would, Directors noted, help to alleviate concerns about the impact of tax rate cuts on income distribution and the longer-term fiscal situation. Broader tax reforms, including reforms relating to the treatment of pensions, are also needed.

Directors also encouraged further reforms to the fiscal system to help achieve medium-term fiscal sustainability. On the spending front, measures to improve the efficiency of public works are critical, in view of widespread concerns about the low social returns on such investment. Although Directors welcomed recent measures to relax the constraints of the Fiscal Structural Reform Act, they stressed that there remains a need to improve the transparency of budgetary policy and establish a more coherent multi-year framework for planning.

Directors endorsed the monetary authorities' decision to maintain the current level of short-term interest rates for the time being. A few Directors noted, however, that, if signs emerged that fiscal stimulus had been unsuccessful in arresting the decline in activity in the second half of 1998, the balance of arguments would shift toward using the limited remaining scope to ease short-term interest rates. Most Directors, however, did not support a cut in interest rates now, as this could weaken the exchange rate and risk destabilizing regional financial markets. Further, in view of the already low level of rates, the impact of a rate cut on activity is not likely to be significant. A few Directors favored an explicit commitment to a small, but positive, inflation target, in order to signal the monetary authorities' determination to resist deflationary pressures. Many Directors, however, considered that an inflation target would not be particularly beneficial in the current circumstances of low interest rates and would do little to address the fundamental problem of low confidence.

Directors agreed that the weakness of the yen since mid-1997 had been helpful from a cyclical perspective, but that further significant depreciation would be counterproductive because of the negative impact on the region, which would in turn have adverse feedback effects on Japan. The recent intervention in foreign exchange markets appeared to have helped stabilize market conditions for the time being. Directors cautioned, however, that failure to follow through with supporting policy actions could trigger further downward pressures on the yen.

Directors welcomed the authorities' commitment to the "Big Bang" reforms of the financial sector, which are a key element in the necessary restructuring of the Japanese economy. Although the timing of the reform—in the midst of a major economic downturn—is far from ideal, it is necessary to avoid slowing the process, given its importance for achieving a durable solution to Japan's structural problems. Indeed, more ambitious measures to scale back the public sector's role in financial intermediation, including by eliminating the preferential treatment of the postal savings system, are needed. Noting the vulnerability of the life insurance sector, Directors stressed that it would be important to limit potential moral hazard associated with any government guarantees.

Directors observed that substantial benefits had already resulted from deregulation efforts, particularly in the areas of telecommunications, energy, and retail sales. Remaining regulatory restrictions are still substantial, however, and contribute to low productivity and lack of competition. Accordingly, Directors called for an ambitious, front-loaded approach to deregulation. In particular, they encouraged the authorities to push ahead with plans to further liberalize the telecommunications and power generation sectors, and stressed the need for more ambitious steps toward reducing nontariff barriers. Reforms to labor market and bankruptcy laws were also viewed as essential to encourage restructuring in the corporate sector.

Directors commended Japan for its role as the world's largest donor of official development assistance (ODA), as well as the substantial support it had provided to the countries most affected by the Asian crisis. Directors noted, however, that fiscal constraints had led to cuts in ODA, and they encouraged the authorities to make every effort to maintain Japan's generous record of development assistance.

Directors observed that Japan's economic data suffered from important weaknesses, which complicated policy analysis. In particular, they encouraged the authorities to improve the timeliness, coverage, and quality of national accounts and fiscal data.

Romania Executive Directors welcomed the focus of the National Bank of Romania on inflation control, but warned that the underlying policy mix was unsustainable, primarily because lack of fiscal support was overburdening monetary policy. Directors also welcomed the increased reliance on market forces. They found, however, that structural reforms had generally not been advanced since the Executive Board's review of the Stand-By Arrangement last year, in particular in the enterprise and banking sectors.

As to macroeconomic policies, Directors noted that the ~~de facto~~ exchange rate ~~anchor~~ policy had served the authorities well in bringing down inflation~~, and that it would be regrettable if the anchor had to be abandoned because of policy slippages~~. However, in the face of an increase in the current account deficit from an already high level, ~~the anchor~~ that policy had required ~~very~~ high real interest rates~~, and sustaining it was imposing a rising cost in terms of output and employment~~. In order to prevent a third year of ~~deep~~ economic recession in 1999, it was now a matter of urgency to unburden monetary policy, which would require a ~~considerable fiscal tightening. Directors emphasized that the continuation of the anchor would only be possible if supported by strong fiscal policies, and some speakers noted that exchange rate policy would have to be geared toward preserving overall balance of payments equilibrium.~~ fiscal tightening. In this regard, there was a general consensus that the current turmoil in international capital markets had significantly limited the authorities' room for maneuver. While the current evidence on competitiveness was unclear, Directors noted that structural reforms would be crucial in allowing productivity increases.

Directors noted that the proposed rectified budget for 1998 would likely lead to a relaxation.rather than a tightening.of fiscal policy. The assumption of a major increase in revenues, including privatization proceeds, was at odds with the fact that the economy was contracting, and with the state of the privatization program. They urged the authorities to base the rectified budget on realistic revenue assumptions. It should also be calibrated with a view to ensuring a sustained reduction in the fiscal deficit in the coming years in order to reduce the current account deficit to a sustainable level.

Directors stressed that fiscal policies in 1999 should be formulated in a medium-term framework, taking account of the objectives of stabilization and reform. In their view, a significant increase in revenues would be essential. Directors recognized that there was considerable scope for improving tax collections. They doubted, however, that the needed strengthening of revenue could be secured without an increase in tax rates, although they did call on the authorities to reconsider their decision to introduce a temporary import surcharge. Directors also underscored that the policy of relying on ad hoc expenditure cuts was not viable.the burden had fallen mainly on capital expenditure and reform-related outlays.and that several costly programs and policies currently in the pipeline were incompatible with fiscal constraints. Emphasizing the need to improve the quality of fiscal adjustment, some Directors also urged the authorities to curtail some planned military expenditures.

Turning to structural reforms, Directors welcomed the liberalization of the foreign exchange market and the switch to market-based instruments for reserve money management and placement of treasury bills. They noted that this had resulted in a

much increased reliance on market forces, and had unburdened monetary and exchange rate policies of quasi-fiscal functions. They also commended the authorities for the important price and trade liberalization measures they had taken in the agricultural sector, and welcomed the acceptance of the obligations of Article VIII, Sections 2,3, and 4 of the Articles of Agreement.

Apart from these market liberalization efforts, Directors found, however, that little progress had been made in advancing other structural reforms, in particular reforms aimed at ailing state enterprises. Noting that the Romanian economy was burdened by a relatively large number of heavily loss-making enterprises, Directors emphasized that an early reduction in the claim on resources by such enterprises would be necessary to enable the emergence of a dynamic small- and medium-sized enterprise sector. The reform program should, therefore, give priority to the privatization of large enterprises, the restructuring or closure of unviable entities, and the enforcement of financial discipline, including by addressing the problem of enterprise arrears. It was also pointed out that the correction of enterprise problems was a necessary prerequisite for tackling the difficulties of the banking sector.

Directors were particularly concerned about the failure to come to grips with problems of ailing state banks~~, and pointed in this regard to the fact that the largest bank had been recapitalized without there being any concrete restructuring plan for it~~. Directors stressed the importance of developing a restructuring plan for the banking sector~~, and urged the National Bank of Romania to take an active role in the restructuring of the largest bank~~. They noted that implementation of such a plan would be key to the sustainability of macroeconomic stabilization.

Looking ahead, Directors underscored that the Fund stood ready to continue to support Romania, but reiterated that such support would require up-front structural reforms and adequate fiscal consolidation. Directors noted that, in setting policies, due regard would need to be paid to the ongoing contraction of GDP. Directors were encouraged by the fact that the new government appeared to recognize that reforms had been lacking, and that its broad objectives and priorities for reforms were mostly in line with what was required. The key issue now facing the government was, first, to develop concrete plans for achieving these objectives and priorities, and, second, to mobilize the political resolve required to implement these plans in the face of what undoubtedly would be fierce resistance from vested interests. While recognizing that the reform process would necessarily have to be protracted because of the attendant social costs, Directors noted that the deep-seated nature of the structural problems made it necessary to move boldly ahead. In this regard, they emphasized the considerable potential for foreign direct investment, which could facilitate the reform process once a critical mass of reforms had been put in place.

Chapter 4

TRANSPARENCY AND ACCOUNTABILITY OF INTERNATIONAL FINANCIAL INSTITUTIONS

International financial institutions have played an important role in highlighting the importance of transparency and in the development and dissemination of internationally recognised disclosure standards. And to strengthen their credibility as proponents of transparency, as well as to enhance their accountability to the general public, IFIs have made significant efforts to improve the transparency of their own views and operations. For example, in recent years, the IMF has instituted the voluntary release of the mission's concluding statement following Article IV discussions, a Public Information Notice (PIN) following the Executive Board's discussion of the Article IV report and all background papers to the Article IV report.[14] The World Bank recently decided to publish its country assistance strategies. Nevertheless, there remains room for improvement.

4.1 Accountability of international financial institutions

Historically, IFIs have not been very forthcoming about their views, policies and procedures. Consequently, IFIs are often regarded as secretive institutions. Moreover, there is a perception that the decisions of IFIs are not subject to adequate public scrutiny or debate, and that IFIs 'impose' programmes on countries. In other words, the (historical) lack of transparency among IFIs has contributed to the perception that IFIs are not accountable.

Just as private firms are accountable to their shareholders, so too are IFIs, their shareholders being the governments of member countries. And through their participation in executive board discussions, member governments are able to monitor IFIs' operations and influence the decisions taken. Member governments are in turn accountable to their electorates for the activities of IFIs. Public interest in these activities is considerable, especially in times of crisis. The public needs to be informed about how well IFIs are fulfilling their responsibilities. Furthermore, IFIs are public institutions, funded with public funds. Governments are accountable for ensuring that public funds are used wisely, and thus indirectly, IFIs are also accountable to the general public.

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[14] Article IV consultations between the IMF and national authorities are usually held once a year and provide a forum for discussing past economic and financial developments, future prospects and policy challenges. The IMF staff prepare a report on their discussions with the authorities, and this report provides a basis for the Executive Board's discussions. A summary of the Executive Board's discussions is released, at the request of national authorities, through a PIN. PINs also contain a background section with factual economic and financial information.

Accountability can take many different forms, but a necessary condition for accountability is transparency. Before judging whether a decision or action was appropriate, it is first necessary to know what decision or action was taken and why. IFIs, therefore, could significantly enhance their accountability to the general public through greater transparency. There are three areas where IFIs could – and are taking steps to – enhance their transparency. First, greater interaction and communication with the public. Second, more independent evaluations of their policies and procedures. And finally, the release of more information about their views on developments in individual countries and their advice to member governments.

The Working Group recognises that IFIs are accountable to their shareholders (member governments) and through them to the general public.

The Working Group recommends that IFIs enhance their public accountability through greater transparency about their operations, objectives and decision-making processes.

4.2 Transparency of international financial institutions

At present, the role and activities of IFIs, and the process by which IFIs arrive at decisions, are poorly understood. The IMF and multilateral development banks are working to improve public understanding through the publication of more information about their objectives, operations and decision-making processes in their annual reports, and through more public comments by senior officials and resident representatives. In addition, IFIs are releasing more detailed budgetary and financial information. For example, the IMF intends to publish information on its liquidity position, which indicates the amount of useable resources that are available for new commitments. The Working Group supports these initiatives.

Independent evaluations are important for assessing the successes and shortcomings of past decisions and actions and learning lessons for the future. Such evaluations should be published so as to raise public awareness and understanding of IFIs' activities and to hold IFIs publicly accountable. The World Bank has a well-developed evaluation process, with assessments being regularly carried out by an autonomous Operations Evaluation Department. The IMF has also developed mechanisms for internal and external evaluations of its policies and practices. An external evaluation of the Enhanced Structural Adjustment Facility was published in 1998, and external evaluations of IMF surveillance and research activities are currently in progress. After the completion of these initial evaluations, the IMF intends to review its experience with external evaluations. The Working Group recommends that all IFIs strengthen existing evaluations mechanisms and publish evaluation reports.

While public disclosures of IFIs' views and advice on developments in their member countries would help accountability, in some areas this must be weighed against the need to maintain the effectiveness of IFIs in carrying out their responsibilities. One of the primary responsibilities of IFIs is the provision of cogent policy advice to member governments. Open and frank dialogue and information exchange between national authorities and IFIs are crucial for fulfilment of this responsibility. Greater transparency of IFIs' views may cause national authorities to be wary of sharing market or politically sensitive information with IFIs, thereby undermining the ability of IFIs to provide cogent advice. For example, to assess the adequacy of its supervisory and regulatory frameworks, Malaysia asked the IMF to review the soundness of its banking system in early 1998. The results of the IMF's review were compared with the central bank's own reports, and strengths and weaknesses were identified. Without an assurance of confidentiality, it is unlikely that the Malaysian authorities would have asked the IMF to conduct such as review.

The Working Group recommends that, as a general principle, IFIs adopt a presumption in favour of the release of information, except where release might compromise confidentiality.

The Working Group recommends that IFIs establish, publicly announce and periodically revisit an explicit, well-articulated definition of the areas in which confidentiality should apply and the criteria for applying it.

The Working Group recommends that IFIs release all information once confidentiality concerns are no longer relevant, for example, after as short a delay as one year for market sensitive information.

There was consensus among the members of the Working Group that the present thirty-year delay in releasing archival documents by some IFIs is too long, and there was substantial support for moving to a maximum delay of five years.

4.2.1 International Monetary Fund

Balancing the efficiency and accountability gains of greater transparency against the need for confidentiality poses challenges for all IFIs, but the challenges are arguably greatest for the IMF. The IMF has two primary responsibilities: overseeing the stability of the international financial system, and acting as an adviser to member governments. These two responsibilities are, in most circumstances, complementary. However, in terms of the transparency of its views about a member's current policies, a potential conflict arises when the IMF advises a member to adjust current policies or risk a crisis, which may spill over into other countries, but the authorities fail to heed the IMF's advice.

The IMF has considerable leverage over governments that seek financial assistance from the international community because access to funds is generally conditioned on implementation of a reform programme. However, the IMF has little leverage over non-programme countries, or countries that do not (yet) need financial assistance, though governments are often influenced by the quality and impartiality of the IMF's advice.

Greater transparency of the IMF's views could help persuade national authorities to take pre-emptive action. Market participants, or rather concern about the market's reaction, could help compel national authorities to state clearly what actions they intended to take to address the issues raised by the IMF, or alternatively, why they disagreed with the IMF's assessment. Greater transparency, therefore, could increase the leverage that the IMF, and the international community, has over non-programme countries and thereby enhance the ability of the IMF to maintain stability in the international financial system.

Yet, by compromising confidentiality, greater transparency of the IMF's views could undermine the IMF's ability to conduct effective surveillance and to engage in meaningful policy discussions. Furthermore, the effectiveness of public warnings as an inducement to prompt action depends on the reasons for the delay. Progressively stronger warnings might help overcome policy inertia, but they will do little to address inadequacies in statistical information or a lack of understanding of economic issues among public officials or politicians.

Release of the IMF's views could also raise moral hazard problems. If the IMF disclosed its communications with national authorities, investors and creditors might rely on the IMF to issue warnings and identify risks instead of undertaking their own analysis of the risks. Furthermore, market participants might assume that the IMF has a 'moral obligation' to provide financial assistance in the event of a crisis in a country that the IMF considered to be 'safe' and, conversely, no obligation to provide assistance to countries that failed to heed the IMF's advice. This could contribute to asset price bubbles in 'safe' countries and market panic in countries where problems are identified.

The Working Group recommends that national authorities support the publication of Letters of Intent, background papers to Article IV reports, and Public Information Notices following the Executive Board's discussion of Article IV reports.

The Working Group recommends that the IMF publish policy papers, programme documentation such as Policy Framework Papers, and Public Information Notices following the Executive Board's discussion of policy papers and programme reviews.

The Working Group recommends that the presumption behind the release of these documents be changed from publication

only if the authorities request to publication unless the authorities explicitly object.

Background papers to Article IV reports are already released to the public unless the national authorities object. The right to object has been exercised on several occasions, but countries have generally acquiesced to the release of background papers. Since the introduction of PINs in 1997, a growing number of countries have approved their release (see Annex D).

There was consensus in the Working Group *against* the establishment of a mechanical or formalistic system of progressively stronger public warnings identifying countries that failed to heed the IMF's advice. Where there are concerns, these should be expressed through the PIN's summary of the Executive Board's discussion of Article IV reports. Discussions in regional surveillance bodies provide another means of persuading national authorities to take pre-emptive action.

Members of the Working Group were divided on the merits of releasing Article IV reports and the staff mission's concluding statement following Article IV discussions between the staff and the national authorities. At present, countries need the permission of the IMF's Executive Board to publish Article IV reports. Some countries have in the past sought permission, but the IMF has never approved the release of an Article IV report. Mission statements are released at the discretion of the national authorities, and a growing number of countries are electing to do so. Some members of the Working Group argued that voluntary release of Article IV reports and mission statements would enhance the accountability of the IMF and national authorities and improve the quality of information available to investors and creditors. Other members contended that the release of such documents could compromise the quality and usefulness of the consultation process and the frankness of reports to the Executive Board. They favoured developing the PINs to provide a fuller consolidated statement endorsed by the Board and reflecting its views, but protecting material that should remain confidential.

4.2.2 Multilateral development banks

As in the case of the IMF, greater transparency regarding the views, programs and policies of multilateral development banks (MDBs) raises concerns about confidentiality and the frankness of national authorities during discussions with MDBs. Yet, transparency on the part of MDBs also has significant benefits, different from those discussed with respect to the IMF. In addition to enhancing accountability, transparency facilitates increased public participation in the design and implementation of development projects. This in turn helps improve the design and implementation of projects, especially in terms of the project's suitability for local conditions. Furthermore, participation facilitates local ownership and, in general, contributes to the ultimate success of the project.

The Working Group recommends that MDBs publish all country assistance strategies, progress reports, environmental impact assessments, internal and external evaluations, and policy papers.

The Working Group recommends that all audit reports and drafts of country assistance strategies be made available to the Executive Board for comment.