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Concluding Remarks by the Acting Chairman
A Methodology for Exchange Rate Assessments and its Application in Fund Surveillance over Major Industrial Countries
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Executive Directors welcomed the opportunity to discuss the methodology of exchange rate assessments and its application in Fund surveillance over major industrial countries. Directors emphasized that the Fund, as the central institution of the international monetary system, must continuously seek to strengthen its analysis and surveillance over exchange rate policies. It was observed that the Fund has the advantage of a global perspective and blend of technical expertise and practical policy experience that enables the staff to add value in advancing the analytical framework and making judgments on exchange rate issues. In that context, the need for cooperation with academia was noted.

Policies of the major industrial countries and countries with systemically important currencies have important spillover effects on other countries. A key aspect of the Fund's role in its assessment of exchange rates of major industrial countries is to contribute to the consideration of the external dimension and effects of these policies. At the same time, Directors emphasized that Fund staff should continue to give high priority to its operational and research work on exchange rate issues for other countries, particularly to a continuous assessment of exchange rates and exchange arrangements of emerging market economies.

Directors encouraged efforts to further strengthen the macroeconomic balance methodology used by the Coordinating Group on Exchange Rate Issues (CGER). They emphasized the importance of continuing to view this as an approach that complements, rather than substitutes for, the various measures of international competitiveness and financial market conditions that also have traditionally played a major role in the Fund's surveillance over members' exchange rates and exchange rate policies. Directors generally agreed that it was impossible to be precise in identifying "equilibrium" values for exchange rates, and that point estimates of notional equilibrium rates should generally be avoided. Nevertheless, Directors agreed that a rigorous, systematic, and transparent methodology was important to underpin the Fund's surveillance. They generally regarded the CGER framework as a useful starting point for judging the appropriateness of prevailing exchange rates in the context of a broader range of macroeconomic considerations and as a basis on which the staff's judgment could be applied to produce a final assessment of exchange rate constellations.

Directors emphasized that in discussing exchange rate misalignments it was important to take into account the broader macroeconomic context. It was essential to consider the appropriateness of exchange rates against the background of prevailing cyclical positions and the attainment of overall macroeconomic objectives. In that context, Directors observed that deviations of exchange rates from their medium-run equilibrium levels may be warranted—even helpful—in cases where the cyclical positions of major industrial countries diverge. For these reasons, Directors emphasized that it was important to take a case-by-case approach in considering what, if any, actions need to be taken when exchange rates appear to deviate substantially from their medium-run equilibrium values.

Many Directors felt that the current CGER approach could usefully be applied more broadly to other Fund members that also have systemic regional importance and that enjoy access to international capital markets. However, some Directors recognized that various complications, including data deficiencies and diversity of economic conditions, may limit the applicability of the CGER framework to emerging and developing economies. They encouraged the staff to continue to refine their approach to exchange rate assessment for these economies.

Directors noted that the analytical framework had been helpful in promoting more candid and focused discussions of exchange rate issues in the context of Article IV consultations. A few Directors thought that a more public posture of the Fund regarding its views of major exchange rates could be considered, but most Directors felt that the current approach had struck the right balance—that is, that staff and management should continue to present their quantitative assessments carefully and refrain from premature public judgments about exchange rates. A suggestion was made to make publicly available on a regular basis—possibly in the WEO—the Fund's estimates of equilibrium exchange rates, but I do not believe there is a sufficiently broad consensus on that in the Board.

Many Directors suggested that it would be useful to publish the staff paper prepared for the Board discussion, focusing on the methodology and supported by the necessary technical annexes, and taking into account today's discussion. On that basis, I suggest the staff proceed to edit the paper for publication in the Fund's series of Occasional Papers.