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March 26, 1999

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is a paper on further considerations relating to transparency and Fund policies, which is tentatively scheduled for discussion on Friday, April 2, 1999.

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 Considerations

Prepared by the Policy Development and Review Department

(In consultation with other Departments)

Approved by Jack Boorman

March 25, 1999

1. In the March 5, 1999 discussion of *Transparency and Fund Policies—Further Steps*¹ the Board agreed to revisit three areas ahead of the Interim Committee meeting in an effort to address concerns expressed and develop consensus on how to move ahead.² These areas included (i) the voluntary release of staff reports for Article IV and Use of Fund Resources (UFR); (ii) summings up/PINs for UFR cases (UFR PINs); and (iii) mandatory release of *Letters of Intent/Memoranda of Economic and Financial Policies (LOIs/MEFPs)* and *Policy Framework Papers (PFPs)*.
2. This paper proposes the following three-part approach: a one-year pilot for the voluntary release of Article IV staff reports; establishment of a presumption that LOIs/MEFPs and PFPs will be released, also subject to review after one year; and proceeding with the release of the Chairman's remarks in UFR cases as agreed, on the understanding that the question of UFR PINs and release of UFR staff reports will also be revisited after a year.
3. Without trying to repeat all of the arguments pro and con on the various issues, the following paragraphs discuss the motivation for and further details on this proposal.

Release of Article IV staff reports

4. During the March 5 discussion, there was a narrow majority of the Board in favor of voluntary release of Article IV staff reports and a very slight majority in favor of voluntary release of UFR staff reports. Focusing on the release of Article IV staff reports, the principal concerns expressed by some Directors were that:

¹See "Summing Up by the Acting Chairman, Transparency and Fund Policies—Further Steps; and Review of the Policy on Access to the Fund's Archives," (Revised BUFF/99/29, 3/18/99).

²A paper on the legal aspects of the publication of staff reports for Article IV consultations and use of Fund resources is being issued separately.

- release could impair the candid nature of the dialogue between the staff and the authorities as well as the frankness of the staff's report to the Board;
- any adverse public reaction that might arise from public issuance was likely to have a disproportionately larger effect in the case of smaller countries, for which the staff's analysis would be the most visible—and possibly the only—external assessment of a country's policies;
- the process of voluntary release of some staff reports might result in undue pressure on other members to request the release of staff reports; and
- if the concerns expressed by some Directors were to materialize and a reversal of the policy of voluntary release was then deemed to be warranted, it may be very difficult to effect.

5. In order to provide safeguards against some of these concerns, and to facilitate an empirical assessment of the validity of others, the staff proposes a one-year "closed-end" pilot project with the following features:

- Identification by Executive Directors, during the discussion of this paper, of a group of Fund members that would be willing to participate in a pilot for the voluntary release of stand-alone Article IV staff reports in the coming year. For the pilot project to provide a basis for meaningful assessment of the concerns raised, there would need to be a critical mass of participants—say, not less than 20—including several developing as well as industrial countries and diverse regional representation. Members indicating willingness to participate would nonetheless retain the right to decline publication at the time a decision on publication had to be taken.
- It would be intended that staff reports be released as soon as possible after the Board conclusion of the Article IV consultation, in conjunction with release of a PIN. The staff report would be posted on the web site with the PIN.
- Any modifications to staff reports would be guided by the same policy as is currently used for PINs. That is, deletions would be minimal and limited to highly market-sensitive information, mainly Fund views on exchange rate and interest rate matters.
- After the one-year trial, no further voluntary releases would be authorized pending evaluation of the pilot and a further decision by the Board on the general policy.
- An evaluation of the pilot would be undertaken by external consultants and supplemented by an internal assessment and would be expected to be completed not later than six months from the end of the pilot. The review would focus on the issues raised by Directors, including the impact of the experience on the candor of the reports released, the impact of the release on the dialogue between relevant members and the

staff, the possibility of self censorship, public impact in member countries, pressures for document revisions, and peer pressure for release. Another aspect of the review would be to assess the workload and resource costs associated with the pilot. The modalities of the evaluation would need to be decided and put in place early on to provide an opportunity to monitor views and experiences of the authorities, staff, and others during the pilot period.

Publication of LOIs/MEFPs and PFPs

6. During the March 5 discussion, there was a majority of the Board in favor of continuation of the current policy of strongly encouraging the release of LOIs/MEFPs and PFPs. However, several Directors supported mandatory release, referring to the potentially positive effects on the implementation of the authorities' programs and in enhancing program ownership.

7. The principal concerns expressed by Directors about mandatory release were that: ³

- some aspects of the program could have destabilizing effects if announced without adequate precautions, potentially unsettling markets and undermining confidence in the program;
- a policy requiring the publication of these documents could lead to a proliferation of side letters covering sensitive information; and
- broader publication of such documents may risk that countries will delay even further approaching the Fund out of concern that the extent of macroeconomic imbalances become known.

8. There is not much experience from which to draw conclusions on the impact of the release of LOIs/MEFPs on financial markets. On the basis of a partial and far from conclusive look at indicators of market reactions, including the behavior of interest rates and exchange rates, the staff has not detected adverse effects from the release of these documents; but more work will need to be done in this area as experience is gained.

9. The staff has also looked at the relationship between the publication of LOIs/MEFP and the use of side letters. The evidence does suggest some correspondence between

³See "Transparency in Members' Policies and Fund Surveillance" (SM/98/171, 7/2/98) and "Summing Up by the Acting Chairman" (SUR/98/91, 7/27/98).

publication and the use of side letters.⁴ However, there is little basis for generalizing this result to a substantially wider release of program documents, nor can causation be determined. A more robust empirical examination of this issue will also require more experience. Board decisions to be taken on side letters should serve to clarify, and should influence their future use which would also need to be taken into account before a move to mandatory release of LOIs/MEFPs.

10. The staff believes that publication of these documents can enhance public understanding of Fund-supported programs, ownership, and hence the prospects for implementation—which, among other things, strengthens the safeguards for the Fund's resources. Nonetheless, it believes that clearer assessment of the validity of the concerns expressed by some Directors would be desirable before a move to mandatory release.

11. The staff proposes establishment of a presumption that LOIs/MEFPs and PFPs will be released, also with experience to be reviewed after one year; that is, members would be advised that the Fund strongly encourages that they publish LOIs/MEFPs and PFPs, and if in a particular case the authorities consider that program implementation would be adversely affected by public disclosure of these documents, they could explain the basis for their decision not to publish to the Board through their Executive Director. The experience, including possible effects on the use of side letters, would be reviewed after a year.

Release of UFR PINs and UFR staff reports

12. In the March 5 discussion, Directors agreed to the publication of a short statement by the Chairman emphasizing the key points made by the Board in approving or reviewing the program. The Board also considered proposals for the voluntary release of UFR staff reports and the adoption of a procedure for UFR summings up and subsequent release of summings up/UFR PINs with a delay. As noted, there was a slight majority in favor of release of UFR staff reports. While there were some comments on the delayed release of summings up/PINs for use of Fund resources, this was not a focus of the discussion and the results were inconclusive.

13. While, in principle, UFR staff reports could be included in the pilot project for Article IV staff reports proposed above, the staff believes that it would be inadvisable at this stage to authorize release of such reports in the absence of a PIN-like instrument expressing the Board's views and that the experiences gained with release of Article IV staff reports should also provide insights for further consideration of release of UFR staff reports. In addition, some of the concerns arising from the release of UFR PINs, including the timing of

⁴The staff examined LOIs/MEFPs and associated side letters for the period January 1, 1997 through January 31, 1999. For all 186 LOIs/MEFPs examined, 24 percent were published. More than one-fourth of those published had side letters. In comparison, about 11 percent of those not published had side letters.

release and signaling impact of divergent Board views, call for revisiting this issue in light of the experience gained with transparency in other areas. Accordingly, the staff proposes that the question of UFR PINs and the release of UFR staff reports also be revisited after a year, taking into account the experience gained with the proposed pilot for the release of Article IV staff reports and of the experience with the Chairman's remarks in UFR cases.

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14. This paper has proposed a three-part approach consisting of the following:
 - a one-year "closed-end" pilot for the voluntary release of Article IV staff reports, with a review of the experience and concerns raised at the end of the process by external consultants;
 - establishment of a presumption that LOIs/MEFPs and PFPs will be released, also subject to review after one year; and
 - proceeding with the publication of the Chairman's remarks in UFR cases as agreed, on the understanding that the question of UFR PINs and release of UFR staff reports will also be revisited after a year.

15. Directors' views are requested. Also, if the pilot on Article IV staff reports is supported, Directors are requested to propose participating countries from their respective constituencies.

