

D404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/39

3:00 p.m., March 4, 1987

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

A. Abdallah
C. H. Dallara
A. Donoso
M. Finaish
J. E. Ismael

Mawakani Samba
Y. A. Nimatallah
G. Ortiz
H. Ploix
C. A. Posthumus
C. R. Rye
G. Salehkhoul
K. Yamazaki
S. Zecchini

Alternate Executive Directors

Yang W., Temporary
L. Hubloue, Temporary
B. Goos
J. Reddy
J. Hospedales, Temporary
M. Foot
H. Fugmann
D. McCormack
I. A. Al-Assaf
S. de Forges
A. Vasudevan, Temporary
M. Sugita

L. Van Houtven, Secretary
B. J. Owen, Assistant

1. Surveillance - Annual Review of Implementation; and
Article XIV Consultations - Periodicity and Form Page 3

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Also Present

African Department: R. J. Bhatia, Deputy Director. European Department: L. A. Whittome, Counsellor and Director; B. Rose, Deputy Director; A. Knöbl, K. A. Swiderski, T. M. Ter-Minassian. Exchange and Trade Relations Department: C. D. Finch, Counsellor and Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; G. Bélanger, J. T. Boorman, E. Brau, S. B. Brown, P. J. Quirk, R. L. Sheehy. External Relations Department: A. F. Mohammed, Director; P. J. Bradley. Legal Department: F. P. Gianviti, Director; W. E. Holder, A. O. Liuksila. Research Department: M. D. Knight, P. Wickham. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Statistics: C. V. Patel. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: P. E. Archibong, M. B. Chatah, I. Puro. Assistants to Executive Directors: H. Alaoui-Abdallaoui, M. Arif, W. N. Engert, S. K. Fayyad, R. Fox, K.-H. Kleine, M. Lundsager, C. Noriega.

1. SURVEILLANCE - ANNUAL REVIEW OF IMPLEMENTATION; AND ARTICLE XIV CONSULTATIONS - PERIODICITY AND FORM

The Executive Directions resumed from the previous meeting (EBM/87/38, 3/4/87) their consideration of a staff paper on the annual review of the implementation of the procedures for surveillance (SM/87/29, 2/4/87; and Sup. 1, 2/11/87, Cor. 1, 3/2/87, and Cor. 2, 3/3/87), together with a staff paper on the legal aspects of the periodicity and form of Article IV consultations (SM/87/30, 2/4/87).

Mr. Dallara made the following statement:

We welcome this annual review of the implementation of surveillance. We have recently had an opportunity in the Board to discuss a number of other important aspects of surveillance, and the staff paper has focused on what might be considered a rather limited number of issues relating primarily to the substance and procedures of Article IV consultations--our exercise of surveillance with respect to individual members--and not to our exercise of multilateral surveillance. We believe this is an appropriate focus--for the paper and the discussion--and therefore I shall not comment on a number of important aspects of multilateral surveillance, such as the use of indicators, in light of the recent attention we have given to these matters.

I should preface my comments on particular issues by saying that we note, like the staff and other Directors, that our review this year of the implementation of surveillance takes place within the context of an international economic community which is giving increasing attention, and attaching increasing importance, to IMF surveillance. Indeed, the initial sentence of the communiqué which has recently been issued by the major industrial countries in Paris refers to multilateral surveillance within the context of the Tokyo declaration of last spring. That declaration itself refers to the agreement of the Versailles summit, involving the commitment of the participants at that summit to a process of multilateral surveillance. I recall these facts because I believe they are relevant to our discussion, in the sense that the world is focusing increasing attention on our surveillance activities. And although the linkages between those communiqués and activities, and today's discussions, are not always entirely clear, I believe those linkages are present, and that we must make every effort to strengthen our surveillance through the mechanisms we are discussing today as well as through the multilateral context on which we have focused on other occasions.

Turning to the specific issues before us, I found the brief discussion in the paper on developments in exchange rates to be quite interesting, indeed intriguing in some respects. I would make two points.

First, the aggregated data concerning the exchange rates of a number of different groups of developing countries suggest that the stability that might be brought about through pegging to the dollar, the French franc, or to the SDR may in some cases be apparent and not real. In fact, it may provide inappropriate signals to an economy, signals unrelated to the competitiveness, price, wage, and other developments in that particular economy. This underscores, in my view, the importance of the Fund looking closely at the exchange rate policies of members which peg their currencies to the dollar, to the French franc, or to other major currencies or, for that matter, which follow any pegging practices that are not closely related to a trade-weighted basis for determining exchange rates. This would have particular relevance perhaps for those currencies participating in currency zones.

The other point that I would make relates to the one made rather well by the staff in the first part of its paper concerning the need for developing countries to find a way to maintain and work to achieve an appropriate balance between their own adjustment and growth objectives, and the needs of the system as a whole. It is clear that the exchange rate policies of a number of developing countries in recent years have not particularly facilitated global adjustment objectives.

I would therefore suggest that a further and somewhat more detailed paper on this issue would be of particular interest, and would warrant the attention of the Board. I would ask that the staff give consideration to such a paper, keeping in mind, as I am sure it would, the obligations of all members under the Articles--as set forth in Article IV--to avoid manipulating exchange rates to gain unfair competitive advantage, an obligation which is repeated in the first principle for the guidance of members' exchange rate policies--as set forth in the Decision No. 5392-(77/63).

Turning to the question posed by the staff regarding the publication of indicators of real effective exchange rates, we agree with the staff proposal to publish in the country pages of International Financial Statistics (IFS) indices of nominal and real effective exchange rates from the Information Notice System. We believe that this publication should be as broad as is technically possible. We recognize the sensitivities which may be involved with respect to members that follow multiple exchange rate practices and hope that a way can be found to provide a realistic indication of effective exchange rate developments, while also providing information related to official rates--rates which may have a special political or symbolic importance. For those members/industrial countries which currently have exchange rate information included in the IFS based on the MERM index, we would certainly not object to a continuation of that practice

but we hope that there could be one comparable, consistent methodology applied to the indices of both industrial and developing countries so that one could use them for comparative purposes.

On the question of frequency of consultations, I have listened with interest to the discussion this morning. Let me say first that we would welcome some movement toward a modification and rationalization of our consultation process by adopting a biennial cycle with simplified interim consultation procedures for certain countries. But we believe that we must move cautiously in this area. The objective of reducing the burden on the staff and the Board is certainly a laudable one, and yet our Article IV consultation obligations are among the most important obligations the Board has. The use of interim consultations should not, in our view, change our established guidelines, which provide annual consultation cycles for members with a substantial economic impact on other members, for members with Fund-supported programs, and for members for which there are substantial doubts about medium-term balance of payments viability. Indeed, in one respect we would recommend broadening that group to include not only the members with the 25 largest quotas, but the 25 largest exporters and importers of goods and services, since there are some important Fund members that may not be captured by any of the above criteria for judging annual consultations. At the same time, we recognize the need to streamline our consultation process and to identify countries which may appropriately fit into a biennial consultation cycle.

We have found the discussion today a bit difficult to follow, in the sense that we do not have a very clear idea at this stage of which countries are being discussed, and until one sees a possible list, one should not, in our view, form definitive judgments. So we would look to the staff for further guidance on this matter.

With respect to the modalities of these interim consultations, we could go along with the notion of having first of all a streamlined staff report, without a background paper on recent economic developments, and, I would say, without, in some cases, medium-term scenarios. Although we continue to attach substantial importance--and perhaps more than Mr. Rye does--to the quantified medium-term scenarios as a general proposition, and certainly for the members on an annual consultation cycle, we would not object to the lack of a quantified medium-term scenario in some of these interim consultation procedures. As Mr. Goos indicated earlier, we believe we should give management and staff some degree of flexibility in devising the particular approach that might be used in an individual case, since what might be suitable for one member might not be particularly suitable for another.

On the question whether or not these interim consultations should be put on the Board agenda or conducted on a lapse of time basis, we have some reservations about the latter approach. We could go along with an approach that involves placing these interim consultations on the Board agenda, with the option of having a discussion. This approach, however, presents certain logistical problems. It may make the scheduling of meetings difficult for the Secretary, and may also make the scheduling of missions difficult. Staff members may be involved in one country and may not be sure whether they need to remain in Washington for a consultation discussion in the Board.

In some ways, therefore, we wonder whether an alternative approach might not be neater and equally effective: to conduct formal consultations in these cases only every 24 months, and not even to consider the interim discussion a consultation in the formal sense. This would, in our view, avoid the awkward situation of trying to create the impression of Board involvement when we in reality are sitting here today saying that we do not particularly want Board involvement in those cases. We have to reach a judgment as to whether we do or do not want the Board to be involved. I can imagine that the staff could have useful, constructive discussions--and could refer to them as staff discussions--once every 12 months on this interim basis between the formal 24-month consultations. The staff could provide advice and exchange views. It would be understood clearly by all involved that this would be staff and management advice, and there would be no attempt to create the appearance of Board involvement when the Board indeed is not involved. We would still, of course, welcome circulation of documentation by staff on its discussions, but this circulation would not involve reporting on a consultation but rather on staff discussions. I realize that this is a somewhat different approach than what had been considered earlier, and perhaps others might find reasons to object to this; but we certainly believe it is worth consideration, since I feel it is somewhat awkward to create the legal and documentary impression of Board involvement, when we are trying to avoid the reality of Board involvement.

Finally, on the question of the periodicity of consultations, we have become increasingly concerned about the fact that, although the number of members in the Fund with which consultations have not been conducted in more than 24 months has been reduced, there are still a number of members which have failed to conduct Article IV consultations for quite some time. We believe that it might be appropriate for consideration to be given to a report by the staff to the Board on the circumstances surrounding these particular cases, since the conduct of Article IV consultations is an important obligation of every member.

Turning to the use of indicators in consultations with individual countries, our general thinking on this issue is that we should move ahead in greater use of indicators in Article IV consultations. The aim should be to include medium-term projections for a group of standard indicators for at least the 25 largest Fund members, although we recognize that data may not be available to fulfill this objective initially. We were somewhat surprised, I would say, to see in the table that was prepared by the staff how few cases, even among the seven largest industrial countries, actually involve formulation of medium-term projections for the entire group of indicators which have been listed. We are not trying to say that there is one perfect set of indicators here. But it would seem to us that it would be worth the time of the staff and the authorities to work to develop medium-term projections for a standard set of indicators for at least those Fund members. We would also hope that other members would express an interest in developing with the staff a standard group of indicators which could be used in their own particular case.

We would also suggest--although this might be difficult to do in the 25 members to which I just referred--greater use of alternative medium-term scenarios for key members, such as has been done for the United States in recent years where various assumptions are made concerning key variables, such as the dollar's exchange rate. On the basis of those assumptions, scenarios can be developed which provide some indication of the possible evolution of events under a certain set of circumstances. I realize that members may be somewhat sensitive about this if it appears to involve formal projections or forecasts, but the staff has been very careful in our own case to make clear that these are hypothetical assumptions, and not staff projections or forecasts. We have found them useful--useful in our own internal policy deliberations, and useful in Board discussions as well.

With regard to the question of supplemental consultations, we believe that they remain a potentially useful device. It would be desirable to find some way to make greater use of the supplemental consultation procedure, although we recognize that the evolution of events in recent years has made it difficult to do that. We would not object to the use of the indicators in possibly suggesting the need for supplemental consultations but, like other Directors, we would not support any rigid triggering of supplemental consultations through the use of indicators. One particular problem that is illuminated by the staff discussion of this issue is the lack of agreement on an appropriate norm against which to measure deviations in performance. The staff paper, for example, suggests on page 28 that, while not an automatic trigger, "significant deviations from policies or prospective developments described earlier by the authorities and specifically identified by the Board as being of special concern could trigger a preliminary review." It strikes me that

in many cases we review in the Board, either the current policies of the member or prospective developments in the member's economy are unsatisfactory from the point of view of the Board. Performance that tracks the forecast, or performance that tracks current policies might in fact be a more appropriate basis to trigger consultation than deviation from the policies or prospective developments. This is a rather complex issue, and I think it is one we have not quite faced up to yet in the multilateral or bilateral use of economic indicators. We would hope that the staff could do some further work on how we could proceed in this area.

With regard to the confidentiality of Fund documents, we feel very uneasy about the Board policy and about the Board discussion on this matter, and I am afraid that this is one area where I tend to differ from the views of many of my colleagues. I do not disagree with the staff's interpretation of what current policy is. Let me make that clear so that I do not generate any unnecessary debate with the staff at the table. But I do disagree with the notion that we should somehow protect ourselves and the international banking community from knowing what we think about economies. As Mr. Rye said, we must give some weight to reality, and the reality is that not a month goes by--hardly a week goes by--when management or staff of the Fund do not go to New York or some other appropriate location in an effort to convince the international banking community that it should provide financial assistance in support of a particular member's policies. The reality also is that in some cases the Fund is importantly involved in determining the appropriate amount and the modalities of the financing that should be provided. I think we must put ourselves in the position of the private banking community and ask whether it is fair and reasonable to expect that the Fund come to town, indicate not only its view in a broad, summary way on the sufficiency of policies, but also indicate its view about the propriety of financing that must be provided by the commercial banking sector--and then often be unwilling to provide in-depth analysis or discussion, or even statistics for that matter, on the member's economy.

I recognize that there are sensitive matters here, and I recognize that there is the danger of impinging upon the frankness of staff discussions, but I just sat through the discussion in the Board and reviewed in detail the staff paper on Venezuela, which is a case where we have acknowledged and agreed procedures that enabled the provision of this document to the private banking community. In fact, a number of us noted and welcomed the fact that the Venezuelan authorities had provided to the private banking community the last such document. I did not notice a lack of frankness; I did not notice a particular degree of vagueness in that document. I think this is a risk of which we must be mindful; but, at the same time, if we really intend

to have the Fund play the catalytic role that we seem to want it to play, then I think we must move a bit closer to reality in our policies regarding the publication and circulation of documents.

Finally, regarding next year's biennial review of the principles and procedures of surveillance, as I indicated at the outset of my statement, we recognize that this is an annual review of the implementation of surveillance. However, during last year's Board discussion we had a quite interesting and quite extensive discussion of possible modifications in the principles and procedures for surveillance. Indeed, if I recall correctly, the staff put forward alternative suggestions for changes which could perhaps be made in the principles for the guidance of members' exchange rate policies, and there was also a discussion in the staff paper of possible changes that could be made in the principles of Fund surveillance over exchange rate policies. It strikes me that, in light of the evolution of surveillance in the past year, it is important that we not allow our own guidelines-- which apply to the entire membership of the Fund and not to a select group--to become anachronistic with respect to the developments taking place in surveillance. And I therefore wonder whether, in light of the fact that we have a deadline of April 1988 to complete our next biennial review of the principles and procedures, we might wish to consider initiating, following the annual meetings this fall, a discussion in the Board of possible modifications of our principles and procedures for surveillance which would bring them up to date with the late 1980s. They have not been changed in any fundamental way since they were initially agreed in the Board, I believe about ten years ago, and there have been substantial developments in surveillance since then. Our principles and procedures were related to a world economy and international monetary system which have also changed substantially. There is hardly any mention--perhaps no mention at all-- in our principles and procedures, for example, of multilateral surveillance. There are many other aspects of surveillance which might be in need of modification. Therefore, I would suggest that consideration be given to looking at this issue in the fall.

Mr. Ortiz remarked, in response to Mr. Dallara's reference to the confidentiality of Fund documents, that the staff report for the 1986 midyear Article IV consultation with Venezuela (SM/87/22, 1/21/87) had been released under the procedures for enhanced surveillance. Although he appreciated Mr. Dallara's point, in the sense that the Fund was asking commercial banks to participate in many financing packages without being able to provide them with staff reports, it must be recognized that the Fund management and staff did spend a great deal of time explaining the details of Fund-supported programs to commercial banks and various of their committees. Thus, there was direct contact between the private banks, the financial community as a whole, and the Fund. He would be

opposed to a wider dissemination of such reports, one of the biggest dangers being that parts of them might be published in the press, creating undesirable domestic political pressures.

Mr. Rye commented that he had been attracted to Mr. Dallara's notion that the in-between consultation in the bi-cycle approach need not be an Article IV consultation. It would be simply a matter of issuing a staff report; it seemed undesirable to him to call it a consultation if it was not a consultation.

Mr. Finaish inquired whether the conclusion of the Board was necessary for there to have been a consultation in the legal sense.

The Director of the Legal Department replied that technically, a consultation implied involvement of the Board in order to complete the consultation process. Thus, there would be a difference between a consultation in a strict sense and a staff report that did not complete the consultation process. A distinction would have to be made between the two procedures.

Mr. Dallara stated that it was the requirement of Board involvement for a consultation that raised doubts in his mind about the options put forward so far because those options tended to imply, in some legal sense, discussion by the Board when in reality the objective was to reduce or effectively to eliminate Board involvement. He was not suggesting that the Board should turn aside from its consultation responsibilities; on the contrary, it should conduct them in an open, clear fashion.

The Director of the Legal Department, in response to a comment by the Chairman, said that the existing guidelines provided for consultations with Board involvement. They did not provide for interim staff reports. If the intention was to have both Article IV consultations in the strict sense and interim reports, the guidelines should be amended to that effect. Law and practice should be consistent.

Mr. Goos said that although he understood the rationale for Mr. Dallara's position, it needed to be borne in mind that it would greatly alter the proposals in the staff paper, in particular if there was to be no possibility of asking for a Board discussion of a staff report for what might be an informal nonconsultation. It could be of considerable interest and value to be able to discuss a staff report, even for interim consultations.

Mr. Zecchini remarked that Mr. Dallara's idea was interesting and had a certain value. Although a consultation was not a consultation without the Board's seal of approval, as Mr. Dallara had pointed out, a 24-month consultation cycle, with an interim report in the intervening period, should not necessarily involve any major change in the legal procedures. In addition, the Board's need for an updated report would be satisfied. The concern expressed by Mr. Goos would be met because any Executive Director could ask for a matter to be brought to the attention of the

Board. Such requests for discussion might make it possible to pay more attention to reports for interim consultations than if they were submitted for approval by lapse of time.

The Director of the Exchange and Trade Relations Department said that he could broadly confirm Mr. Zecchini's understanding that the idea was to introduce some variation into the system. The interim staff paper would have a different title, to make the distinction sought by Mr. Dallara; whether or not there would be a discussion in the Board could be left to the procedures to be set up, and without creating any legal problems. Certainly, any Executive Director or member could ask for a discussion on the basis of whatever paper was available at the time, although it would be expected that the Board would not request that the report be placed on the agenda without good cause. The staff's general view was that the Board's involvement was a critical part of the surveillance process that should not be changed lightly. Mr. Dallara had raised an important point in that respect in the sense that the greater the recognition that it was a staff operation, the more limits were likely to be placed on the extent to which the interim procedure was adopted for countries.

Mr. Zecchini made the following statement:

At the outset I would like to welcome the innovations in the implementation of surveillance that were introduced in 1986. These innovations constituted a significant step in the direction of expanding the effectiveness of surveillance and strengthening its multilateral scope, in line with the wishes expressed by this chair on the occasion of the previous review.

Following the guidelines set in the April 1986 Interim Committee communiqué and the declaration at the 1986 Tokyo economic summit, a number of comments and suggestions were made in Board discussions pertaining to the implementation of surveillance that have already been incorporated in the World Economic Outlook of September 1986. Moreover, following the latest Interim Committee communiqué, the Board has reviewed a number of issues pertaining to the expanded use of indicators for analyzing policy interactions and detecting potential tensions and policy inconsistencies at the international level. In this respect, we look forward to the next discussion of the world economic outlook to implement the latest Board agreements on the use of indicators and on the analysis of multilateral repercussions of economic policies.

Following the structure of SM/87/29, we will comment on the review of exchange rate developments, on the use of the Information Notice System, and on three issues pertaining to the implementation of surveillance raised in the staff paper: namely, the frequency of consultations, the use of indicators in bilateral consultations, and the confidentiality of Fund documents.

In the review of exchange rate developments, the staff points out that the real effective exchange rates of small industrial countries and of developing countries, whose currencies are pegged to a composite basket other than the SDR or are floating, have experienced a significant depreciation recently. This is a welcome development since, in the majority of cases, such depreciation reflected an explicit policy stance. Most of these countries attempted to narrow external imbalances and offset effects of anticipated terms of trade deterioration through exchange rate depreciation and the adoption of more flexible exchange rate arrangements. Only in a few cases was there exchange rate depreciation despite a favorable external performance.

This widespread depreciation, however, needs to be assessed in the context of the objective of adjusting the global external imbalances of the major industrial countries. It is widely acknowledged, and also recognized in the staff paper, that the nominal depreciation of the exchange rates of several developing countries and small industrial countries has tended to reduce the total depreciation of the U.S. dollar's real effective exchange rate. Thus, all other things being equal, the burden of adjustment falling on the exchange rate of the dollar vis-à-vis the major industrial countries has increased. At the same time, the process of correcting the U.S. external imbalance through stabilization of the domestic economy has slowed down. In this respect, we share the view of the staff that the policies for external adjustment of each country in these groups should also be assessed in the light of a symmetrical adjustment process between surplus and deficit countries. The extension of the multilateral surveillance exercise with respect to the exchange rate policies of the relatively small surplus countries is a significant step in this direction.

In 1986 the Information Notice System has undergone two major improvements. The number of countries monitored has been extended and a new weighting scheme has been introduced in the calculation of effective exchange rates. We welcome such improvements, as we attach great importance to the use of quantitative exchange rate indicators in the surveillance process. There could also be some scope for circulating these pieces of information concerning real exchange rates outside the Fund. Thus, we can go along with the proposal put forward in the paper that the country pages of IFS be supplemented with estimates of past real exchange rates, which are currently provided through the Information Notice System.

The staff paper also reviews several proposals to reduce the work load associated with consultations. The most significant among these proposals is the adoption of a consultation procedure

requiring biennial formal consultations plus an interim, simplified, quasi-consultation after 12 months. We broadly endorse such a proposal, and we can add a few comments.

First, in order to achieve a significant reduction in the work load of Executive Directors and staff, the simplified, interim, quasi-consultation should not be expected to involve a discussion by the Board. Obviously, the discussion should take place if requested by any member or by the management.

Second, interim, quasi-consultations should feature simplified reporting, balancing the need of economizing staff resources, and providing a thorough analysis of basic policy stances and issues. To this end, we could agree that the interim report should avoid addressing, for example, structural policies or dealing with descriptive material already covered in the previous background paper on recent economic developments.

Third, the proposed procedure should replace the existing 18-month and 24-month consultation cycles which do not envisage any interim consultation. One fundamental objective of periodic consultations is to ensure adequate updating of the country's statistics and to maintain staff contacts with the authorities. Interim consultations, while reducing the work load for the Board and the staff, would still fulfill these objectives. Moreover, the annual periodicity of consultations, as opposed to the 18-month cycle, allows the Fund to better schedule the annual missions during the year.

Finally, with reference to the issue raised in SM/87/30, namely, consultations pertaining to Article XIV and Article VIII, these consultations can be held on an annual basis following the proposed procedure.

Significant savings in the use of staff resources can also come from a reduction in the scope of the background papers on recent economic developments. To this end, we would agree to the elimination of such background papers for the interim consultations, limiting the staff to providing an update of the most important tables. We would propose shorter background papers every second year for countries which are kept on an annual cycle.

Lastly, to preserve the effectiveness of the surveillance exercise it is crucial to define appropriate criteria for determining which countries should still be kept on the annual consultation cycle. The criteria presently utilized seem appropriate. Hence, full-scale annual consultations should continue to be conducted with countries having Fund arrangements, countries with possible balance of payments difficulties, and "economies having a substantial impact on other countries," according to

the original wording of the 1983 guidelines. With respect to the latter criterion, it can be recalled that the 1985 review of surveillance indicated the need for annual reviews of "at least the 25 largest members" in relation to quotas. We believe that such criterion could be modified to include only the members with a quota larger than SDR 1 billion. The number of countries would thus be reduced from 25 to 20 without affecting the principle that economies having a large impact on the rest of the world should be closely monitored. To this criterion, we would add the need that countries with large external debt should also undergo annual consultations because of the actual and potential impact of these members' policies on other members as well as on the financial markets. The external debt measure should obviously be defined relative to some scale factor such as GDP/GNP.

A second important issue in the implementation of surveillance concerns the use of indicators in consultations with individual countries. In this respect, we would like to emphasize that strengthening the use of indicators in consultations can greatly improve the exercise of multilateral surveillance. Indicators within the context of Article IV consultations can and should be utilized in order to identify and highlight the multilateral implications of the major countries' domestic and external policies. Therefore, we would welcome the presentation of more detailed and quantified short- and medium-term projections for the major economies as well as for the most important developing economies in the framework of Article IV consultations and, wherever possible, for the major developing countries' economies. In this respect, progress could be made in the formulation of medium-term projections for monetary and credit aggregates for the G-7 countries with the support of their authorities.

A strengthening of multilateral surveillance could also involve the use of indicators as an instrument for initiating the supplemental consultation procedure. The adoption of such procedure should not be automatic, based on deviations of indicators from the expected path, but should be left to the discretion of the Managing Director, who should assess the need for entering into supplemental consultations, taking into account the various signals that indicators might provide. An additional improvement in the surveillance procedure, although more limited in scope than the broad supplemental consultations, would be to closely monitor developments in key policy areas which might have significant effects on other members. Such areas should be identified by the Board and monitored on the basis of more frequent short notes or reports than the annual report for the Article IV consultation.

Finally, on the issue of confidentiality of Fund documents, we consider that the release of staff reports to creditor banks should continue to be viewed as an exception. Specifically, the release should be authorized only in the few cases pertaining to the enhanced surveillance procedure when there is a reasonable expectation that this will contribute to normalizing debtor-creditor relationships in not too long a period. It should also be stressed that the reports do not necessarily reflect the views of the Fund, but are the sole responsibility of the staff.

Mr. Hubloue made the following statement:

The frequency of consultations continues to be a major issue in the implementation of surveillance procedures. The staff has convincingly summarized the various arguments in favor of regular and frequent consultations, both in the interests of members and of the effectiveness of the Fund's surveillance over the international adjustment process. The staff paper also shows that past efforts to reconcile the pursuit of this valuable principle with the need to contain the work load of both Board and staff have failed to produce significant results. We therefore noted with great interest Mr. Lundstrom's proposal for a new consultation procedure which would alternate biennial formal consultations with interim simplified consultations. Let me say at the outset that we agree with the basic thrust of this proposal and support making a trial of it. The suggested approach could save a good deal of time at each stage of the consultation procedure without fundamentally decreasing the benefits of frequent and regular contacts between staff, member, and Board.

At the level of staff discussions with member country authorities, time would be saved by focusing the interim consultations on matters especially relevant to the medium-term sustainability of the member's policy stance, and reserving other, less pressing issues for the biennial consultation. The staff should take care, however, not to exclude from its abridged discussions the emergence of new aspects or focuses of the current economic debate in the country. A brief preliminary exchange of views--probably with the intermediation of the Executive Director's office--with the Governor for the member country concerning the most relevant issues for discussion might be very helpful and efficient in this context.

With respect to the resources spent on reporting, the staff paper teaches us that substantial savings could be obtained by further abbreviating the background paper or even replacing it with a set of relevant tables to be attached to the staff report. These reports should continue to provide a summary of economic developments during the year under review, a brief report on the policy discussions, and a staff appraisal which should include an update of the country's medium-term outlook.

Finally, at the level of Board consideration, we would prefer that the staff report for the interim consultation be placed on the Board's agenda with the understanding that there would be no discussion unless the member, the management, or an Executive Director wished to bring substantive issues to the Board's attention. This procedure could perhaps usefully be complemented by allowing the Executive Director to circulate the usual opening statement presenting his authorities' own views and assessment of the economic situation of the country under review.

On the possible scope of this simplified consultation procedure, we fully agree with the staff that regular annual consultations should continue to be held with countries having arrangements with the Fund, as well as with countries for which there is substantial doubt about their balance of payments viability. In this connection, the relative level of a country's external indebtedness should act as an important trigger indicating the need for full annual consultations. With respect to the 25 largest countries currently on a 12-month cycle because of the significant effect of their economies on other countries, Table 2 of the paper permits rough distinctions to be made between developing countries with large debtor positions, the 7 largest industrial countries for which international surveillance is particularly relevant, and other countries. Regular annual consultations should preferably be continued for the first two groups of countries while shifting the other countries to the proposed biennial cycle. Although this approach is somewhat at variance with Mr. Fugmann's proposal, both methods would lead to roughly the same result. In any case, the criteria adopted should be implemented with the requisite flexibility, and with important policy decisions, such as the adoption of new government programs, being considered sufficient reason to shift a country back to the annual cycle if needed. Finally, it is my understanding from reading the staff paper that the proposed procedure would also allow us to respect the annuality of Article IV consultations.

On the other issues raised for discussion by the paper, I can be brief. We support the staff's efforts to make the analytical content of its consultation reports more transparent through the use of quantified indicators on economic policy. By the same token we would also encourage the staff to conduct consultations on the basis of a common analytical framework for assessing the sustainability of members' policies. Important though it is to have a wide range of quantified indicators, the conduct of policy discussions on the basis of a commonly accepted analytical framework offers even greater prospects for increasing the international usefulness of bilateral consultations and for promoting the desirable policy dialogue among members. Recent consultation reports already reflect considerable progress in this area and we encourage the staff to pursue and extend this approach.

On the issue of the confidentiality of consultation reports, this chair continues to support the idea that we should resist unwarranted pressure from creditor banks to release staff reports except for the limited number of cases where such release has been approved by the Board. On quite another aspect of the broader use that can be made of consultation documents, let me just add that, in recent years, while Belgium has been following an economic adjustment program under close Fund guidelines, my authorities have developed the practice of informing the media of the general thrust of the staff's preliminary conclusions. This is because they consider it extremely important to communicate with public opinion on the Fund's evolving assessment of the Government's policies. This practice could be strengthened and perhaps extended to other countries by allowing the member to give appropriate distribution to the summing up of the Board's consultation discussions.

Finally, I support the staff's proposal for publication of nominal and real effective exchange rate indices in the country pages of IFS.

Mr. Nimatallah made the following statement:

The Board is concerned today with the review of only the procedures of surveillance, which is to be completed before April 1, 1987. The Board will review the principles of surveillance in approximately one year from now.

On the publication of indicators of real effective exchange rates, I have an open mind, but I think it may be appropriate that the Fund circulate in IFS indices of nominal and real effective exchange rates. This can help fill an informational gap on the evolution of competitiveness of Fund members.

As for reducing the burden on the staff and the Board, I can go along with the majority view on how best to reduce such burden without sacrificing the basic effectiveness and benefits of surveillance. I can see, for example, that it might be helpful to omit from time to time--but not always--the medium-term scenario. But more important, I agree with the staff that the shortening of background papers might constitute the main time-saving element for the staff. On the frequency of Article IV consultations, I have no difficulty in accepting the proposals of the Nordic chair, if they are combined with Mr. Foot's proposals, except perhaps when it comes to interim consultations. My preference would be for a staff report to be placed on the Board's agenda only if so requested by the member, an Executive Director, or, of course, management.

Should the Board decide to change the frequency of Article IV consultations for such members according to any of the proposals made today, and just in case there are member countries availing themselves of the transitional arrangements of Article XIV, Section 2, and retaining restrictions inconsistent with Article VIII, Sections 2, 3, or 4, I can go along with the staff suggestion to reflect the change in the frequency of Article IV consultations adopted today by amending Paragraph II of the Procedures for Surveillance contained in Executive Board Decision No. 5392-(77/73), so as to allow for separate consultations to be carried out in those cases pursuant to Article XIV, Section 3. I assume that a draft decision in this respect will be circulated for approval on a lapse of time basis.

On the use of indicators in consultations with individual countries, I have no doubt that more specific and quantifiable information can help strengthen the linkage between Article IV consultations and discussions of policy interactions in the multilateral framework of the world economic outlook. This, in turn, will strengthen the role of the Fund in monitoring, together with the relevant members, the policies of those members and the impact of those policies on the system. I am hoping, of course, that in case there are significant deviations from the intended policies--such as those declared in the communiqué of the recent Paris meeting of the Group of Six--that the Fund, through the Managing Director, might consider on a case-by-case basis whether a supplementary consultation with such countries is warranted.

On the confidentiality of Fund documents, I have no difficulty in going along with the staff proposals. Since commercial banks are an inseparable part of the financing packages for certain countries, it seems to me that an understanding has to be reached, in complete confidence, between those countries and the Fund on the necessity for and timing of the release of some information to the banks. The Fund should not release anything unless approved by the member, and the member should not release anything to the banks unless approved by the Fund. A relationship can be worked out on that basis. But in general, under normal circumstances, what the staff proposes is important and should be the rule.

Finally, I assume, as suggested in SM/87/29, that a draft decision on all these points will be circulated for approval on a lapse of time basis.

Mr. Salehkhoulou made the following statement:

Since the last review of the implementation of surveillance, significant progress has been made, both in the discussions aimed at strengthening Fund surveillance and in the improvement of

policy analysis in the context of the world economic outlook exercise. There has been greater recognition of the interactions among national economies and of the impact of large industrial countries' economies and financial policies on the rest of the world economy. Tensions among these policies, their unsustainability over the medium term, and their implications for output expansion and for developing countries' efforts to deal with external debt have also been more widely acknowledged than before; as a result, some constructive recommendations have been made, including the use of indicators to ensure greater coordination and discipline among the economies with a large impact on the world economy.

Progress in these areas was, however, in sharp contrast not only with the minimal effective influence of the Fund over the large industrial countries' policies, but also with the large disruptions which marked international exchange markets over the last few months and with the more extensive recourse to exchange rates as the major policy instrument. While the recent G-6 meeting in Paris has so far led to greater stability of exchange markets, the prospects for greater coordination of these countries' financial policies have only improved marginally as the current stability appears to reflect more the threat of central bank intervention than market sentiment about the respective currencies.

The large fluctuations of exchange rates in 1986 were to a great extent linked to the deliberate attempts by the United States to drive down the dollar, and partly reflected efforts by others, mostly developing countries, to preserve or strengthen external competitiveness. While the active exchange rate policy of the United States seems, at least temporarily, to have contained domestic pressures for the adoption of protectionist barriers, it has also led to considerable uncertainties and to dangerously nervous exchange markets, significantly complicating other countries' policies.

With respect to the implementation of surveillance in 1986, I welcome the innovations introduced by the staff in the March and September World Economic Outlook reports and the maintenance of full consultations at an adequately high level. It is also encouraging to note that further progress was achieved in reducing the size of missions for Article IV consultations, and that delays in the conclusion of consultations have generally been of shorter duration, reflecting most frequently the need to formulate policies or for the Board to discuss them jointly with adjustment programs. The Information Notice System has also been strengthened through its formal extension to a larger number of countries and the adoption of a new weighting scheme for the estimation of some developing countries' real effective exchange rates.

Turning to some of the staff's specific recommendations, first, on the proposed publication of estimates of effective exchange rates, I wish to reiterate my reservations about the disclosure of any information or data that is confidential or not made public by the member. Publication of estimates based on preliminary information would also be inappropriate. While a sufficient lag in publication could be considered, it is essential that concerned members' concurrence with such publication be secured in advance.

Second, the recommendations on the frequency of consultations are quite interesting. The issues raised by the proposed interim simplified consultation should, however, be carefully considered, because the objective of reducing the Board, management, and staff work load associated with consultations is valid only to the extent that it does not have a negative effect on other objectives, including the strengthening of Fund surveillance, the maintenance of regular contacts with all Fund members, and the role of the Executive Board in the formulation of policy recommendations to Fund members. In this respect, I wish to note that while the absence of a Board meeting for the completion of the interim consultation could lead to meaningful savings, together with shorter reports and a limited updating of background papers, I am not in favor of an implicit endorsement of the staff appraisal or recommendations. In fact, I do not believe that a formal staff appraisal is necessary in the case of countries qualifying for the interim simplified consultation, since the countries would be limited to those with relatively stable balance of payments positions and having a very limited impact on the international or regional environment. Moreover, should major developments affect the earlier Board assessment of these members' policies, the Board, in a formal meeting, should examine the interim report together with a new staff appraisal. It is, after all, the collective views of the international community, as represented in this Board, that the authorities are seeking and are entitled to by way of Article IV consultations. The staff's views have already been communicated to the authorities both during consultation missions and in the form of staff reports. In this connection, I venture to add that Executive Directors seldom find themselves in complete agreement with the text of staff appraisals. It would be difficult to approve such appraisals without formal discussions in the Board even when there exist only minor differences on a few or several of the numerous issues covered in the appraisal. At the same time, Directors may find it difficult to make frequent requests for consultations to be formally put on the agenda, for fear that such requests may at times be inappropriately interpreted or for other practical reasons. Furthermore, Directors no doubt recall occasions on which they had not originally intended to make formal interventions but found it necessary to do so in

light of hidden differences surfacing in the course of Board deliberations. The staff's reaction to these comments would be appreciated.

Before I take up the matter of the proposed simplified interim reporting, I wish to comment on the coverage of trade policies in the regular staff consultation reports, particularly in the case of industrial countries. In view of protectionist pressures in many of those countries, the implications of their extensive restrictions on the domestic allocation of resources and on other economies' performance, and the fact that a large number of developing countries have been forced to implement significant trade liberalization--under Fund-supported adjustment programs--it is essential that Fund treatment of the industrial countries' trade policies in individual consultation reports be more extensive and more critical of current practices. The participation in these consultation missions of staff from the Exchange and Trade Relations Department appears equally important in this connection. It is not admissible that the Fund's jurisdiction on trade issues be resisted in the surveillance exercise, and zealously assumed in the negotiation of Fund arrangements, the more so as the adequacy of trade liberalization as an instrument of adjustment is at least questionable, as stressed by many speakers at last week's symposium.

To revert to the matter of the proposed simplified consultation, I could go along with the narrowing of the coverage of interim reports to those areas which are important to an adequate updating of the assessment of the sustainability of the member's policies. The determination of these areas on a case-by-case basis is also acceptable. I would, however, prefer the maintenance of current practices for countries under the 18-24 month cycle, with no interim simplified consultation or formal reporting.

The proposed simplification would therefore apply only to some of the countries currently on the standard 12-month cycle. I agree with the staff that a measure of caution is necessary so as not to imply that the countries eligible for the simplified consultation are less important or their balance of payments difficulties less complex. I have some doubts, however, about the scope of the potential savings if the country coverage proposed by the staff is adopted. Maintenance of the 12-month cycle for the 25 largest economies, for countries having Fund arrangements, and for those with possible balance of payments difficulties does not appear to leave many candidates for the simplified procedure. Moreover, while the maintenance of current practices in the case of "economies having a substantial impact on other countries" is essential for the strengthening of Fund surveillance and for a more symmetrical exercise, both the cutoff point and the use of quotas to determine the largest economies are arbitrary. Members' total trade in goods and services and the

choice of a lower number of countries would appear in this regard to be more appropriate. I see merit in Mr. Fugmann's proposal to limit the list to the ten largest countries.

Regarding the consultations under Article XIV, Section 3, I believe that there is no need for regular and full-fledged consultations solely on the basis of the member's restrictions on current transactions, and could support the staff's proposals.

Third, on the use of indicators in consultation with individual countries, as I indicated in an earlier consideration of this issue, the broad support of large industrial countries for such use and their willingness to cooperate with each other and with the Fund are the essential ingredients for the effectiveness of the surveillance role of the Fund. The use of indicators could not be limited to the world economic outlook exercise, and should naturally lead to a greater degree of specificity and quantification in individual industrial country reports to verify not only the sustainability of domestic and external policies but also the country's efforts to deal with possible tensions with other countries. The effectiveness of the proposed use of indicators would also require the adoption of special procedures to encourage the adoption of policies consistent with international responsibility. The proposed supplemental consultations, closer scrutiny of areas of tension, and special reporting on developments of particular concern to the membership could be useful in this respect. While there might be no need for automaticity in these procedures, it should be noted that in the past there has been only limited recourse to supplemental consultations in spite of considerable tensions and severe international imbalances caused by individual major economies. The reluctance of the Fund to use these instruments in the case of the largest countries would nullify any beneficial effect of the use of indicators.

Finally, I wish to conclude these remarks by sharing the staff's concern with regard to the confidentiality of consultation reports and the need to enforce more forcefully the procedures on the communication of such reports to third parties, including creditors. In this connection, this chair has consistently expressed strong reservations on the transmission of Fund documents to commercial banks. The concerned authorities should be encouraged to resist pressure by commercial banks at all times so that the practice does not become more prevalent.

Mr. Posthumus made the following statement:

I think there are several issues of principle that we should group in order of priority.

First, the Interim Committee has given specific guidance on the desired way of fulfilling the Fund's central role in the functioning of the international monetary system. This multilateral surveillance will be further considered when we discuss the world economic outlook. However, the work load of the staff may increase because of this role.

The second priority in my view is surveillance in the framework of Article IV discussions. Here two elements should be kept in mind. One is that this bilateral surveillance, in the form of Article IV consultations, is a central responsibility of the Fund vis-à-vis its members. The other is that this work is the basis on which both the staff and the Board can build up the Fund's role in multilateral surveillance. I see further and regular information and discussions on exchange rate developments in the Board as a tool to identify financial developments as they are evolving, not as mini-world economic outlook discussions.

The work load of the staff is the third issue derived from these two main tasks in surveillance work: multilateral surveillance and Article IV discussions. Whether it is possible to handle this work load, whether it can be reduced, or whether an expansion of the staff would be required can only be considered from the point of view of these two surveillance priorities. Of course, the other work of the staff should also be considered, as Mr. Mwakani rightly mentioned.

The fourth issue in my opinion is then whether the Board can organize its work in such a way that a decrease of its work load can be attained. For this, the Board will have to look primarily at its own procedures, and there really is an urgent need to do that.

My reaction to specific proposals on the table is as follows.

I can agree with the staff proposal on the publication of indicators of real effective exchange rates, in the format suggested.

I consider it important to schedule consultations with members on roughly the same schedule every year, or in other words, every 12 months, 24 months, or on a bi-cycle.

I agree with the introduction of bi-cycle consultations: a number of smaller countries, experiencing no particular balance of payments difficulties and not having a stand-by arrangement with the Fund, might be eligible, including smaller industrialized countries. Some countries may themselves opt for the bi-cycle consultation. However, this procedure should really only be introduced if the priorities which I mentioned are being kept in mind, and if it saves staff work. This means not only simplified

reporting, but also no background papers for the interim consultation. All reports must be on the agenda to prevent a difference in status. An agenda item is not an invitation to talk, but to decide.

It should be considered to what extent the background papers on recent economic developments could be shortened in all cases. I have the feeling that these papers are being prepared for more purposes than for Article IV consultations.

If the staff thinks that every in-between consultation may become a full consultation at the request of an Executive Director, then it would always have to be prepared for that possibility, and no saving in the work load of the staff would result. This is the problem Mr. Dallara mentioned. Would it not be sufficient for the Board to agree that it normally does not discuss extensively an in-between consultation report, rather than make a rule which prevents it from having a discussion?

Indicators should play a role in both multilateral and bilateral surveillance; together with medium-term estimates, the whole surveillance process will in due time become more clear. Following Article IV consultations, some indicators might indeed be identified for special attention, leading if necessary--but not automatically--to a supplemental consultation.

The confidentiality of Fund documents should be maintained, including confidentiality in those cases where we agree to release documents to creditor banks as part of enhanced surveillance arrangements. Mr. Dallara's views can in fact be interpreted as an indication that the Fund must not go much further in its relations with commercial banks in order to avoid becoming ever more involved.

Mrs. Ploix made the following statement:

I will focus my intervention on two main items: the use of indicators in consultations with individual countries, and the proposals made to reduce the work load associated with consultations.

On the use of indicators in consultations with individual countries, as correctly recalled by the staff, the recent discussion on the use of indicators in surveillance focused mainly on their contribution to the multilateral world economic outlook exercise.

In our opinion, these indicators could also be useful in the Article IV consultations, for at least three different reasons. First, the analysis of key policies cannot but be improved by the use of a specified and quantified framework; this point is clear enough not to require elaboration. Second, the practice of

including projections in staff reports is useful. Nevertheless, the coverage of these projections is very uneven. Not all industrial countries are covered, and all indicators are not used in each case, as appears clearly from Table 3 of SM/87/29. To improve this situation requires a joint effort both by the staff and by countries' authorities. We would favor broadening the use of indicators along the following lines. On the occasion of the Article IV mission in some countries, and especially in the seven major countries, the staff could ask the authorities to comment on the indicators. It could then compare previous forecasts with actual results and analyze the reasons for the differences. The debate on the staff data--forecast for the current and the following year--would increase collaboration between the country and the Fund, and improve surveillance. As noted by the staff, such enhanced collaboration would facilitate the preparation of the world economic outlook, and improve its outcome.

As for the use of indicators to trigger supplemental consultations, we do not see any need for modifying the existing guidelines at this stage. Indicators could play a role in such a process, but the decision lies with the Managing Director.

On a more practical level, I would like to raise a suggestion. Indicators enable us to systematize the analysis. Would it be possible to further harmonize the presentation, the content, and the units of measurement (U.S. dollars, SDRs, local currencies, ratios) of the tables provided as background for Article IV consultation papers?

On the proposals to reduce the work load associated with consultations, I shall concentrate on the proposal for formal consultations every two years with simplified interim consultations. My authorities support this proposal.

To maximize the benefits from such a reform, we must decide on the criteria for selecting countries to which the new system should apply. We agree that full annual consultations should remain the norm for countries having Fund arrangements, as well as for the "larger" countries. However, we consider that the notion of "large" could be more restricted. For this purpose, the list could be narrowed, for instance, to the 15 largest countries. It seems rational for the Board to devote a greater part of its attention to the countries which exert the most influence on the world economic environment. We also think that the distinction introduced by the staff between countries where there is "some degree of uncertainty concerning balance of payments viability," and countries where "there are substantial doubts about medium-term viability" will be useful for selecting the cycle.

The introduction of the "bi-cycle" should not give the impression that some members are less important or that their problems are less deserving of the Fund's attention. Quite the contrary: tightening the procedures will reduce the mechanical aspect of too many consultations, and could help to focus staff and Board comments.

The interim consultation would be based on simplified reporting, with, among other features, a drastic reduction in the size of background papers, which should be issued as an annex to the staff report. May I say once again in passing that a real shortening of the background papers would be very welcome in all cases. The simplified staff reports should nevertheless not sacrifice the medium-term scenario. I would prefer that the interim report be circulated and a decision taken after a lapse of time. As far as the Article XIV consultations are concerned, I am ready to support any simple solution.

Let me make a final point on this issue of simplification: we would like to see reviews on arrears take place at the same time as Article IV consultations.

I have no difficulty with the publication in IFS of nominal and real effective exchange rates, along the lines proposed by the staff; I reiterate my authorities' position that the rules concerning the distribution of Fund documents should continue to be rigorous and should be changed only by Board decisions.

Mr. Yang made the following statement:

In order to reduce the work load associated with consultations, this chair supports the proposal that standard annual consultations be transformed into biennial consultations supplemented by interim simplified consultations. We also agree that regular annual consultations should continue to be held with countries whose economies have a substantial impact on other countries, with countries having Fund arrangements, and with countries having possible balance of payments difficulties. With a view to making savings, we are inclined to suggest that the current procedures be maintained for countries presently on 18-month or 24-month intervals between formal consultations. This would mean that an interim consultation would not need to be added for those countries. With respect to the content of interim simplified consultation reports and accompanying background papers, we are in favor of the view that the coverage of these reports should be narrowed, focusing on areas which both the member and the Fund deem as critical. The interim simplified consultation report would normally be seen as endorsed by the Executive Board without being discussed, unless the member, management, or any Executive Director requested such a discussion.

With respect to consultations under Article XIV, we support the view that biennial Article IV consultations with interim simplified reporting procedures would provide an opportunity for the Board to conclude consultations under Article XIV on an annual basis. The biennial consultation report, as well as the interim simplified consultation report, could include an adequate review of any foreign exchange restrictions that some members have retained as transitional arrangements. The decision concluding the annual Article XIV consultation could then be taken on a lapse of time basis.

For countries which retain such restrictions but have 18-month or 24-month Article IV consultation intervals, the staff and the member authorities could hold annual Article XIV discussions, concluding with a draft decision which would be approved by the Executive Board on a lapse of time basis.

With respect to the publication of effective exchange rates and the use of indicators in consultations with individual countries, we can go along with the majority in supporting the staff's proposal.

Concerning the confidentiality of Fund documents, we strongly demand that the rule be strictly observed and necessary measures taken to check violations.

Lastly, I would like to say that I have much sympathy with Mr. Reddy's remarks on the Fund's surveillance on monetary policies in both industrial and developing countries. In addition, I would like to point out that while the Fund usually makes precise policy prescriptions for developing countries on exchange rate arrangements, it appears much less capable in dealing with misalignments and volatilities in exchange rates of the major industrial countries. I fully recognize the problem of practicability for the Fund in exerting its influence by ways and means other than the world economic outlook analysis and bilateral consultations. But at least some action should be taken to change the helpless state of the Fund when the exchange rate situation of the major currencies emerges as critical. As I recall, not long ago Mr. Zecchini suggested that some form of Board discussion be held regularly to assess updated developments on the world's foreign exchange markets. I would like to see some real moves along this line.

Mr. Hospedales made the following statement:

At this stage of the discussion we shall limit ourselves to an attempt to react to the issues raised by the staff in its papers reviewing the implementation of surveillance.

First, we have grave doubts about the convenience of publishing in IFS estimates of real effective exchange rates. Such indicators, as distinct from others which are already published in IFS, are of extreme sensitivity because they imply forecasts of sustainability or unsustainability. At the same time, the construction of nominal effective exchange rate indicators allows for numerous degrees of latitude, depending on the weight of the various exchange rates. The construction of indicators of real effective exchange rates permits additional degrees of latitude because it depends also on the choice of price indices. Under these conditions we fear that the publication in IFS of such indicators would give to the implicit estimates of sustainability or unsustainability a role which cannot be technically justified and which could be felt to be extremely harmful. Even a lag in publication and cautionary footnotes or introductory notes would not meet this problem. Consequently, we would like to be at least assured that indicators of real effective exchange rates for any currency would not be published in IFS or elsewhere by the Fund unless the issuing member agrees, even if there is no problem regarding the availability of the underlying indices.

Second, on the frequency of consultations, we see no major problems in the Lundstrom proposal as long as the safeguards discussed in the Informal Meeting of Executive Directors on January 15, 1987 are observed. These safeguards are that abbreviated papers could be presented every second year only if the following conditions are met: (i) countries are not large enough to have a significant impact on other countries--perhaps this means the Group of Ten plus some countries of regional importance; (ii) countries do not have Fund programs; and (iii) there are no serious doubts on the part of the Managing Director regarding the medium-term viability of the member's balance of payments. Article IV consultations could be concluded on a lapse of time basis in these three instances unless any Director or the Managing Director feels a Board discussion is necessary.

Article XIV consultations will, of course, in any case have to be held annually with countries for which they are pertinent. However, as pointed out in SM/87/30, these consultations could also be concluded by a Board decision taken on a lapse of time basis.

We would assume that changes in the frequency of consultations would be introduced, experimentally at first, say, for one year.

Third, we favor the use of indicators including, in particular, indicators of variables on which our recent discussions have focused. These indicators as well as other circumstances could be used to consider whether supplemental consultations are required.

Fourth, on confidentiality, we do not favor any liberalization of the rules pertaining to the release of confidential Fund documents.

Mr. Abdallah made the following statement:

Judged by the actual implementation of surveillance procedures, the Fund appears to have made significant efforts in the discharge of its responsibilities under Article IV, Section 3. The growth in the number of Article IV consultations and in Information Notices, as well as the improvement in the coverage of world economic outlook exercises, represents evidence of the Fund's determination to strengthen its surveillance role. However, both in the bilateral and multilateral setting of surveillance, the staff's annual review clearly shows that, notwithstanding the achievement so far, the Fund's surveillance mechanism must be strengthened if the institution is to "exercise firm surveillance over the exchange rate policies of members."

I note the apparent recognition of the fact that hitherto too much reliance on bilateral consultations has failed to give enough emphasis to the interaction among national policies. In this connection, I welcome the inclusion in the forthcoming World Economic Outlook of a separate chapter on policy interactions in industrial countries. Such analyses could be useful in the multilateral surveillance process, although the real purpose must remain that of designing an international framework that would promote greater consistency of policies.

On the four main areas covered in SM/87/29, my views are briefly as follows. The list of indicators as summarized in Table 3 appears to cover a fairly wide range of variables for which key policy instruments could be analyzed within a specified and quantified framework. But this list is by no means exhaustive. For the medium-term projections, it seems that the number of variables covered should be increased to include possibly developments in the monetary and credit aggregates. I feel that wider coverage makes assessment of policy interactions more meaningful. Such broad use of indicators could strengthen the effectiveness of the Fund's surveillance function and minimize the existing problem of asymmetry. With respect to the publication of indicators of real effective exchange rates in IFS, I would have no serious objection to it, provided that a member's concurrence has been obtained, especially if such information had not been published in the country concerned.

I share the view that the confidentiality of Fund documents should be strictly maintained. It is in the interest of both the Fund and the members to adhere to this requirement. However, I feel that exceptions to this rule might be considered in cases

of restructuring or concerted lending arrangements where it has now become virtually a tradition for staff reports to be made available to creditor banks.

So far as the frequency of consultations is concerned, there is no doubt that the size of the present membership is such that if all member countries were subjected to Board discussion every year, the work load would continue to be overwhelming, on both Executive Directors as well as top management. Urgent measures need therefore to be taken to deal with this ever growing burden, particularly in the light of other emerging responsibilities, such as contributing to a solution of the debt crisis; improving multilateral surveillance, and inducing freer world trade and global prosperity.

Mr. Fugmann has presented a number of ideas and possible approaches on how the work load may be reduced, and I am in broad sympathy with the general trend of his thinking. Some change is needed but let us be cautious so that we do not make too sharp a break with current practice. There are two principal reasons for urging caution.

First, all member countries greatly value the analysis and appraisal of their economies which the Fund staff carries out under the regular consultation exercises. These appraisals, together with the background papers on recent economic developments, play an important role in the formulation of national economic policies, in dealings with a number of multilateral financial institutions, and in consultations with bilateral donors. To those small countries that do not seek the use of Fund resources, these annual appraisals, together with technical assistance, are the only tangible benefits that they derive from membership in the Fund. It is essential therefore that whatever change is made should not adversely affect the quality of the staff reports and the accompanying background papers on recent economic developments.

Second, we must, as Mr. Dallara has advised, avoid any procedure which gives the impression that something has been approved by the Board when in actuality that is not so. Member countries view Board discussions not as a technical and formal operation but as involving an international evaluation of their own performance and policies. Any change that has the effect of virtually cutting off the operational involvement of Executive Directors in the appraisal of member countries' performance will therefore be viewed as a retrograde step by those members who will be affected by it. This will be even more true if the suggested "interim consultation" involves not only approval of Board decisions on a lapse of time basis but also entail lower quality appraisals and documentation.

I am sure that such a downgrading of staff as well as Board involvement in the consultation exercise is undesirable. Yet I also recognize that the present practice of bringing virtually all annual appraisals to the Board for formal consideration cannot continue. Is there a midway position between the virtual cutoff of some countries from Board discussion and persistence with current practice? I would humbly suggest that such a midway position can be established if the Board so decides.

My specific suggestion for reconciling the two conflicting requirements is to establish a special committee of the Board to deal with reports on those small countries which are not using Fund resources and whose balance of payments position is fairly strong and likely to remain so for the immediate future. The committee should be comprised of at least half of the full Board, and items on the countries concerned should appear on the Board agenda so that Executive Directors who are not members may become aware of the cases and attend the committee proceedings if they wish. Papers submitted to the committee should be the usual ones--the staff report plus background papers--and the Executive Director for the country concerned should produce the usual statement to inform as well as stimulate discussion in the committee. The discussion that takes place in the committee should then be incorporated in the summing up, which the Managing Director would subsequently circulate, together with the proposed decision where relevant, for formal approval of the full Board on a lapse of time basis.

This procedure, if adopted, would have the merit of producing a Board decision which more closely approximates to what has actually happened than would the suggested interim consultation and approval on a lapse of time basis. The ensuing decision will also be more in accord with actual Board practice where only few Executive Directors tend to speak on virtually all country matters while the remainder are more selective.

If the suggestion is adopted in some form or another that is broadly acceptable, it will reduce the work load on the full Board, but it might not be advisable to call the Board committee process an interim consultation. Such a designation, particularly if accompanied by lower quality documentation, could convey an impression to the countries concerned that they are being downgraded as not worthy of full-scale attention. This unintended outcome would gradually affect the basic relationship between the Fund and the members concerned for no good reason, other than that the countries concerned are small and doing fairly well in managing their economies. I hope these possibilities will be borne firmly in mind in our continuing search for ways and means of reducing the growing work load on the Board.

Mr. Vasudevan made the following statement:

We always attach high importance to the Fund exercising surveillance over the policies of members that have international impact, in particular those related to movements in exchange rates. We also stress that the procedures of surveillance should be strict and implemented effectively in a symmetrical manner with a view to promoting smooth international adjustment.

On the procedures for multilateral surveillance, this chair had outlined, in its intervention last year around this time, a proposal on the lines of the G-24 report. Since then, many developments have taken place. In particular, the last World Economic Outlook has contributed to an improved understanding of the usefulness of indicators and their implications for potential incompatibilities in economic policies and projections relating to major industrial countries. Although the Board has not agreed on the quantum or type of indicators, several of us have emphasized the need for the Fund to focus on the sustainability of external positions and the desirability of existing policies and trends. We therefore have to continue to examine the application of indicators to facilitate the multilateral appraisal and coordination of economic policies, in the context of periodic consultations with major member countries. In doing so, we will have to give priority to the monitoring and evaluation of economic performance. Problems with performance require early attention if they are to be corrected before they assume major proportions.

We could therefore support the proposal for a greater degree of specificity and quantification in the staff reports for Article IV consultations and for a discussion of policy interactions in the multilateral framework of the world economic outlook. The effectiveness of surveillance could be enhanced if significant deviations from the paths outlined by indicators lead to some automatic triggering of supplemental consultations with countries that have a major international impact. Such a step would contribute to redressing the current asymmetry in the international adjustment process. At a minimum, such significant deviations from the paths laid down by indicators could trigger a preliminary review by the staff of whether a supplemental consultation would be appropriate. I may add that consistent with the decision on supplemental surveillance procedures, this review may be confined only to areas that have "important effects on other members."

On recent developments in exchange rates, the staff has provided a succinct account of the widespread pattern of real effective depreciations in the last two years. In general, the Board took the view during the Article IV consultations that such depreciations would strengthen or at least prevent a deterioration in the balance of payments positions of most countries. The staff also periodically circulated useful information notices.

In this connection, please permit me to digress a bit. Several Directors have expressed the view that, in considering developments in exchange rates of key currencies that showed extreme volatility during the past two years, the staff should come up, as quickly as possible, with an analysis, even if brief, on the causes of such volatility and the implications for the policies and sustainability of positions in these countries. We thought that it was agreed that an attempt would be made in this regard, but so far we have not seen any efforts in this direction. It is, we think, necessary periodically to have discussions on exchange rate movements in key currencies based on staff assessments which could be brief and analytical.

As regards the publication in IFS of estimates of real effective and nominal effective exchange rates, my authorities are not agreeable to it, even with a time lag that may be caused by delays in obtaining firm data. Too many methodological and compilation problems exist, such as the assumed neutrality of exchange and trade restraints and tariffs, the determination of the baskets, and the use of different price indices and the selection of the base year. There is a danger that publication of questionable indices would bring undue pressures on the country in question from many sides--including speculation--thereby making exchange rate management extremely difficult for that country. In any case, these indices should not be published without the explicit consent of the member country.

On the work load associated with Article IV consultations, we have considerable sympathy for the proposal to have biennial formal consultations, with simplified interim consultations in certain cases. It may be advisable to place staff reports based on interim consultations on the Board agenda as a matter of course, with the clear understanding that there would be no discussion unless it was felt that substantial issues should be brought to the attention of the Board. This is because some members may value some form of Board approval; hence, a draft proposed decision should be annexed to the interim consultation paper, which could be adopted on a lapse of time basis. The interim papers should also include medium-term perspectives.

Regular annual consultations may continue to be held for countries with Fund arrangements. Also, full annual consultations should be conducted with larger countries and with those with possible balance of payments difficulties. But it should be stressed that requests from a member, whether large or small, for an annual consultation, should be agreed.

We can also go along with the idea of shortening background papers on recent economic developments, although my personal view is that these papers are often as useful as the staff reports.

In respect to the confidentiality of Fund documents and their release, we strongly feel that the reports should be kept confidential since this contributes to a frank exchange of views and information between the staff and the authorities during the consultations. We consider it improper to release staff reports to bank creditors.

Mr. McCormack made the following statement:

I support the publication in the IFS country pages of the nominal and real effective exchange rate indices monitored under the Information Notice System, to fill the evident information gap for a large number of countries.

On the implementation of surveillance, I see considerable merit in attempting to reduce the work load of the Board and the staff without jeopardizing the effectiveness of the consultation process. Some movement toward the suggested simplified procedure, namely, interim annual consultations without an obligatory Board discussion, seems to be appropriate. As the staff paper points out, consideration of this proposal raises several issues upon which I would like to comment briefly.

Beginning with the role of the Board, there seems to be little compelling practical difference between the two procedural options, with the possible exception that placing the report on the agenda as a matter of course might make it somewhat easier to bring matters of concern to the Board's attention. In principle, I have no strong attachment to one or the other of these two approaches. However, since I believe that we should approach implementation of the simplified procedure with caution, I would prefer placing such staff reports on the agenda as a matter of course, with the clear expectation that there would be no discussion unless requested, on the understanding that there is a broad endorsement of the staff appraisal.

With respect to the content of the interim consultation report itself, I agree that the scope of analysis in the reports could be narrowed from the comprehensive coverage of regular consultation reports, as discussed on pages 19 and 20 of SM/87/29. A very short paper should then be adequate. However, I would agree with the staff's view that medium-term scenarios should remain a part of the interim reports. In addition, I think that for the interim consultations, substantially shortened background papers would also be appropriate; these may be dispensed with entirely, in a number of cases, judged on their merits.

On the applicability of the modified procedure to countries currently on a 12-month consultation cycle, I agree that regular annual consultations should continue to be held with countries

that have Fund-supported arrangements. As the staff suggests, the presumption should be that annual consultations should remain the norm for countries with probable balance of payments difficulties, and for large countries. However, the application of these latter two guidelines could be modified in the context of interim consultations. I see scope for moving from a regular annual consultation cycle to the simplified procedure in cases where there was only some degree of uncertainty concerning balance of payments viability, rather than substantial doubt. As the paper points out, such decisions would have to be taken on a case-by-case basis, considering the particular aspects of each situation. At this juncture, with an increased appreciation of the role of multilateral surveillance, it might be inappropriate and perhaps even imprudent to change our definition of large countries radically so as to facilitate significantly fewer consultations. I would have some reservations about reducing very sharply the numbers in our largest country group.

With respect to the relationship between existing 18-month and 24-month consultation cycles, and the proposed simplified procedure, I can see no good reason a priori to automatically substitute the simplified procedure for a longer consultation cycle which is working satisfactorily. Again, however, such decisions must be taken on a case-by-case basis in the light of the particular circumstances.

Having said that we desire to reduce the work load associated with consultations, I would have to say that we firmly believe that the option for full annual consultations should remain open for all members. I was impressed by Mr. Mawakani's comments, reiterated by Mr. Abdallah, on this point, which also, I believe, has relevance for some countries in my own constituency.

Concerning the requirement in the Articles for annual consultations with members availing themselves of the transitional arrangements under Article IV, and that retain restrictions inconsistent with Article VIII, I can support the staff's conclusion in SM/87/30.

Turning to the use of indicators, I strongly support the staff's efforts to make the analytical content of reports more transparent through a greater degree of specificity and quantification, and within both a short-term and medium-term framework. Such analysis is useful both in assessing policies within a country and interactions in a multilateral framework. These objectives have a validity independent of the indicator exercise.

On the question whether monitoring developments in those variables and policies of special concern could improve surveillance, and whether significant deviations from expected paths could indicate the need for a supplemental consultation, my

authorities' view is that we are still at an early stage of the indicator exercise. Until more work has been done, they feel that it is premature to talk about anything that suggests automaticity. However, when there are unusual, unexpected developments in indicators, it would not be unreasonable to call for a special examination of the problem or perhaps to consider a special consultation. We would not expect this to occur frequently. The Fund is already reviewing and monitoring developments in major countries on a very regular basis in the preparation of the World Economic Outlook and Article IV consultations. Given these existing means for reviewing developments, special consultations would probably only be necessary in very occasional circumstances.

Finally, with respect to the considerations related to confidentiality, I would like to express agreement with the position taken in the paper regarding the impropriety of releasing Fund documents, and I would also urge authorities of member countries to observe rigorously the rules concerning the distribution of Fund papers.

Mr. Finaish made the following statement:

On the use of indicators in consultations with individual members, we have always been of the view that any steps that would strengthen the effectiveness of surveillance over major countries would be a move in the right direction. This is not only because of the impact that policies of major industrial countries have on the rest of the world, but also because of the asymmetry in Fund surveillance, which is far less effective when it comes to industrial countries than it is with developing countries and small members in general.

With respect to the recent meetings of G-5 and G-6 countries aimed at policy coordination, like other speakers, we believe that the participation of the Managing Director in such meetings can be helpful, especially in providing the broad views of the membership that he is well placed to convey. It is also important in this connection to re-emphasize the role of the Fund as the nexus of international monetary and financial cooperation. Other forums can, of course, be useful, but they should be seen only as a supplement to the Fund as the natural forum for overseeing the international monetary system. They should neither substitute for the role of the Fund nor detract from that role.

I now turn to some of the operational issues raised by the staff in SM/87/29.

The publication of estimates of effective nominal and real exchange rates may be useful. However, as suggested by the staff,

publication should be contingent upon members' approval, particularly in those cases which involve the use of unpublished information in the construction of the estimates in question.

As for the frequency of consultations, we are in agreement with the view that a reduction in the work load associated with Article IV consultations would be desirable, provided that it does not have a negative impact on the Fund's ability to perform this important function in the most effective manner. Indeed, it is partly the concern that an excessively heavy work load may reduce the quality and effectiveness of the Fund's surveillance function that has motivated the proposals made in recent years to reduce the work load.

The proposal made recently by Mr. Lundstrom, and which is discussed in the staff paper, involves a novel approach to the problem that we find interesting. It provides flexibility in determining the appropriate frequency for various groups of the Fund's members, while maintaining the benefits of annual contacts and follow-ups for a number of countries. Mr. Fugmann's elaboration on the proposal is helpful, and I find quite reasonable his suggestions as to which countries the new bi-cyclical procedure could apply. I would like to add that, as a matter of principle, the rules on frequency should not be rigid, and the wishes of members should be taken into account as much as possible in light, of course, of the rules and understandings reached in the Board.

As to the content of the interim staff reports and the Board's involvement in the interim consultation process, I agree with Mr. Fugmann that if a substantial saving in staff and Board resources is to be achieved, the document has to be brief.

Another, more difficult, question relates to the role of the Board. It is true that under either of the options proposed by the staff, individual Directors will have the opportunity, if they desire, to ask for a Board discussion. However, in practice, Directors may find themselves in the difficult position of either fully endorsing the staff appraisal if they do not ask for a discussion, or asking for a full-fledged Board meeting. One can imagine situations where Directors may have certain disagreements with the staff appraisal and recommendations that nevertheless do not warrant, in their judgment, a request for a Board discussion, especially since the purpose of the exercise is to ease the staff's and the Board's work load.

The question has been raised whether the procedure could not be formulated in such a manner that the absence of a request for a discussion will not imply a complete Board endorsement of the staff appraisal and recommendation. It is true that this would, in a way, give the interim report a somewhat lower status than that of the regular biennial report. However, it should be

remembered that much of the status of Article IV reports is acquired through their discussion by the Board, which often-- though not always--is supportive of staff appraisals. I would appreciate staff comment on the practical and legal feasibility of such a procedure.

We are supportive of the staff's view on the distribution of Fund documents, which must remain confidential.

Let me now turn briefly to the paper on the periodicity and form of Article XIV consultations. As far as periodicity is concerned, the Articles are quite explicit, and short of an amendment in the Articles, an annual Article XIV consultation will have to be conducted with all members availing themselves of the transitional arrangements. This notwithstanding, I must say that it is not easy to understand why this provision in the Articles was discovered only now. As to the form which this consultation will take in the case of members who are on 18-month or 24-month cycles, in my view the aim should be to find the minimal way of satisfying this legal provision. This would be consistent with what we are trying to do in terms of reducing the work load associated with Article IV consultations. Besides, any provision that takes so long to be noticed cannot be so important in practice.

One possibility of meeting the legal requirement at minimum cost would be for the consultation to take place during the annual meetings, since presumably such discussions could be rather brief. There may be other alternatives which also avoid the need for a staff mission, such as a designation by the country concerned of a representative, for instance, its Executive Director. Perhaps the staff could comment on such possibilities. In any event, the staff document, together with the proposed decision, should be approved by the Board on a lapse of time basis.

Mr. Donoso made the following statement:

We attach the greatest importance to efforts oriented toward enhancing the efficiency of our surveillance procedures, which we consider essential to improve the functioning of the international monetary system. Thus, we welcome this annual review of surveillance matters and the improvements achieved in this connection.

On the four main issues highlighted by the staff, first, on that of the publication of indicators of real effective exchange rates, we believe that information on the evolution of competitiveness in member countries is highly valuable. Accurate and timely information on this matter greatly helps each member country to better define its own policies. The Fund has been

improving its estimates of real and nominal effective exchange rates, introducing more sophisticated weighting schemes and producing estimates for more countries. Making the existing information available outside the Fund could contribute greatly to better policymaking in member countries.

We would favor, however, the publication of information on each specific country only after that country has expressed its agreement. The delay in the availability of official price data for some countries makes it possible to present only preliminary information on real effective exchange rates, if extended lags are to be avoided. We think that an effort should be made to present the preliminary information as soon as it is available because it is useful even if it is not final. Once official price data are available, the preliminary estimates should be replaced by the final ones. What is important is that the users of indicators of effective exchange rates be familiar with the methodology behind the estimates and be sure how much confidence they can place on the figures. Perhaps one way to deal with this problem is to present the estimates of real and nominal effective exchange rates, while they are still of a preliminary nature, in a different publication, and include it in IFS only when official price data is available.

With respect to countries which maintain multiple exchange rates, we would expect them to cooperate with the Fund, providing the necessary information to arrive at an appropriately weighted average of exchange rates. To publish the information, we should as in all other cases request the member's authorization.

On the second issue of the frequency of consultations, which are a fundamental element in the fulfillment of the Fund's surveillance function, the ultimate objective of maintaining annual consultations with each member country is not an easy one to achieve in practice. Therefore, we can go along with the proposal for a new consultation procedure involving biennial formal consultations with interim simplified consultations, as presented in the staff papers.

Three considerations seem important in this connection. First, the current annual consultation procedure should remain unchanged for the 15 larger countries defined by using a quota-based criterion, for the members having Fund arrangements, and for countries with possible balance of payments difficulties. Second, the interim consultation should contemplate the possibility for the member country, management, or any member of the Executive Board to bring the subject to the Board for a formal though necessarily less in-depth discussion. Third, as indicated in the paper on the periodicity and form of Article XIV consultations, in the case of member countries that avail themselves of the transitional arrangements of Article XIV, Section 2 and retain

restrictions inconsistent with Article VIII, separate annual Article XIV consultations shall be conducted if the Fund has decided to conduct Article IV consultations at intervals longer than one year for that country.

The third main issue is related to the use of indicators in consultations with individual countries. We consider it very important that every effort is made to conduct the analysis and discussions in a clearly specified and quantified framework. This would improve the quality of the analysis and would facilitate the linkage between Article IV consultations and discussions of policy interactions in the world economic outlook framework. We also support the notion of defining key variables for stricter monitoring, significant changes in those variables to be taken as an indicator of the need to consider the possibility of a supplemental consultation.

The fourth and final issue concerns the confidentiality of Fund documents. We believe that a more flexible policy should be considered. If the authorities of a member country find it useful to make a report referring to their country available to other parties, we think they should be able to do so. Maybe we should think of a system that avoids putting pressure on a country which does not want to release information. In any event, the system should make possible, in our view, the release of information when a country so wishes.

The Director of the Exchange and Trade Relations Department observed that most of the points made by Executive Directors would be recorded in the summing up. In addition, the considerable guidance they had given would be taken into account during the course of the year. However, without wishing to influence the balance of judgment and views expressed by Directors, he wished to respond to certain of the points that had been made.

The main thrust of his own view was to be cautious in making change, the Director continued. The Fund had an established practice, which the Board reviewed continually as it concluded the consultations with members, giving guidance to the staff on each occasion on the issues that should be explored on the subsequent mission for the consultation with the member. While many adaptations to the procedures could be made as developments unfolded, the Executive Board had demonstrated widespread support during the current discussion of the procedures for surveillance for experimenting with a new procedure that would reduce somewhat the workload of the staff and the Board. The staff would certainly use whatever margin it had, in the summing up of the discussion, for implementing effective innovations in those procedures.

At the same time, Executive Directors should not expect major relief, the Director remarked. The easiest way to measure the impact on the staff was to indicate that reducing the number of countries with the largest quotas that would be on an annual cycle from 25 to 15 would only affect the European Department, whereas the pressures on the staff were felt most keenly by the African Department and the Western Hemisphere Department. A shorter report was not necessarily an easier report to write, especially as the strength of the staff's position lay in its ability to stand at a little distance from current problems and make its assessment in a medium-term setting. The principal problem would not be whether to include medium-term scenarios; it would be a matter of making an appropriate assessment in a medium-term perspective in each report. If staff reports were shortened, less attention would also have to be given to certain issues of interest to members generally. For instance, trade was likely to be given shorter shrift, despite the staff's preference for treating it more extensively. On the whole, however, a more precise focus on the main issues in staff reports would be beneficial.

As to whether there was a need for a separate consultation when a member had a stand-by arrangement, the Director of the Exchange and Trade Relations Department considered that the staff report for the consultation and the review could usually be a combined one. It seemed necessary to complete the consultation to make sure that the appropriate issues were covered, first, because use of the Fund's resources was involved, and second, because the impact on the work load on the staff and the Executive Board would be minimal. Furthermore, it was appropriate to treat all countries in the same way.

It would be important at the present stage for the Board to be given a staff report that was identified as being an interim report under the modified procedure, the Director stated. The suggestion that there should be only a very brief background paper on recent economic developments--or not at all--also argued for making such a distinction, as Mr. Dallara had mentioned. Likewise, a summing up concluding a full consultation that was conducted on a 24-month cycle should also be identified as such.

At the same time, as the Board in general had agreed, the Director noted, the opportunity to discuss an interim report should be kept, with the discussion to be given a somewhat different status from a discussion leading to the conclusion of a full consultation. As the Director of the Legal Department had pointed out, a consultation in Fund practice quite clearly called for the involvement of the Executive Board. The interim reports should carry no connotation of a consultation, unless they were discussed by the Board, in which case procedures would have to be devised for distinguishing them from full consultations.

With respect to a different procedure for the release of staff reports, a matter raised by Mr. Rye, the Director of the Exchange and Trade Relations Department said that any member could ask for a report to be released, subject to the approval of the Executive Board. The staff

was generally in favor of strict rules to ensure discipline on the part of members and also to ensure that sufficient attention was paid to such requests for the special release of staff reports.

In response to Mr. Reddy, the Director said that he was not aware of a breach of confidentiality on the part of the staff. The staff had no right to disclose any information pertaining to a member without the member's express authorization. The case that Mr. Reddy had in mind might have arisen because of a misunderstanding by the staff of the authorities' instructions.

The possibility of experimenting with a new procedure entailing consideration of staff reports by a committee of the Executive Board had been discussed in the past, the Director recalled. When the idea was considered in more detail, it was shown to raise various problems that would require further study.

The staff was studying, for consideration by the Board, ways of providing for a discussion of currency movements, the Director stated.

Contacts with the authorities of a member country under the simplified procedure for Article XIV consultation, would be kept to the minimum required for the formal application of the provisions of Article XIV, the Director of the Exchange and Trade Relations Department stated. There was no intention to carry out a full staff visit.

The Director of the Legal Department, referring first to the differences and the similarities in the procedures for consultations, commented that the basic concept of a consultation with the Fund--namely, with the Executive Board--was that in a strict sense, a consultation could not be completed unless conclusions were reached by the Executive Board. The Board could reach those conclusions either after a meeting or without a meeting on a lapse of time basis. So that there were two possible procedures: a full procedure for a consultation with Board discussion and conclusions, or a simplified procedure with a decision adopted on a lapse of time basis. In addition to those two consultation procedures in a strict sense, there was a third procedure that was not a consultation proper but had been referred to as a staff report. The staff could issue a report to the Executive Board at any time and that report would not necessarily give rise to a discussion or lead to a consultation. Thus, the term "consultation" had a limited sense and would not cover the issuance of a staff report by itself.

In response to Mr. Finaish's remark about the rediscovery of Article XIV, the Director of the Legal Department explained that the provision, far from having been forgotten, was perhaps so famous in the history of the Fund that its existence and meaning were thought to be generally known. In Selected Decisions of the International Monetary Fund and Selected Documents, one could find the texts of several Fund decisions dealing with the application of Article XIV, and a letter to members sent by the Managing Director as early as 1947. In 1959 and 1960, the Executive

Board had discussed staff memoranda on the legal and policy aspects of Article VIII and Article XIV (SM/59/73, 11/18/59 and SM/60/8, 2/16/60). When the 1977 guidelines on surveillance had been adopted, it had been agreed that the annual consultations and Article IV would also encompass consultations under Article VIII or Article XIV.

As for the procedure for consultations under Article XIV, there were no special rules, the Director of the Legal Department noted. As mentioned by the Director of the Exchange and Trade Relations Department, the intention was to avoid cumbersome procedures because the scope for consultations under Article XIV was limited compared with that under Article IV.

The staff representative from the Research Department noted that two issues had been raised concerning the role of the world economic outlook exercise in the multilateral surveillance process. First, Mr. Ortiz and several other Directors had expressed the view that greater use should be made at the multilateral level of the savings/investment framework and indicators in order to highlight issues relating to the sustainability and consistency of payments positions. In the staff paper on prospects and issues related to the world economic outlook (EBS/87/39, 2/24/87), which was to be discussed by the Executive Board on March 16, an attempt was made, in Section IV on economic interactions and policy issues to extend the analysis along those lines. It might be better to defer discussion of the issue until Directors discussed the world economic outlook, with all the relevant statistical material at their disposal. Another important policy issue that might also be deferred until the discussion of the world economic outlook was Mr. Mawakani's question whether recent real exchange rate depreciations in a number of developing countries that had been shown to lead to increases in exports had also been associated with higher domestic inflation. Mr. Dallara had made reference to some related issues.

The other major issue he wished to address concerned the proposal in the staff paper to publish nominal and real effective exchange rates for the developing countries and the smaller industrial countries in IFS, the staff representative from the Research Department observed. A number of those Directors who broadly favored publication of those indicators had emphasized the need for caution in the presentation. The staff would attempt to convey some of the many qualifications that needed to be made when presenting indicators of real effective exchange rates in IFS. A number of Directors had also emphasized that nominal and real effective exchange rates should be published only for those countries agreeing to publication. That particular point had been raised in the staff paper in respect of member countries maintaining multiple exchange arrangements, and for which the staff would therefore be using a composite nominal exchange rate in calculating the indices. At the same time, Executive Directors should be aware that the normal practice of the Bureau of Statistics--with a few exceptions--was to discuss the data to be published with the country prior to publication and not to publish data against the wishes of the member. That practice would be followed with respect to the publication of real effective exchange rates in all cases, and not only where composite nominal exchange rates were to be used.

Referring to the question raised by Mr. Reddy of how the staff would handle cases in which it calculated weights used in real effective exchange rate indices differently from those preferred by national authorities, the staff representative observed first, that one virtue of the revised and expanded weighting schemes for the new indicators was that they were constructed on as homogenous and consistent a basis as possible across countries. Of course, all real exchange rate indices were an attempt to reduce large amounts of information into a tractable form, and it could never be argued that one type of index was superior to others for all purposes. Thus, while the staff would prefer to retain the approach that it had developed, the use of other indices was in no way precluded. Indeed, another virtue of the indices that the staff had developed was that they could be broken down into their components--for instance, imports and exports of primary commodities and manufactures--in order to allow a more intensive analysis of competitiveness in specific markets. The staff would also continue its efforts to improve the indices and the data base in the course of consultations with member countries, adjusting the weights where there was evidence that the geographical or commodity composition of trade had altered significantly for a country since the date for which the weights had been calculated. If the authorities of a country believed that the staff's measures were not representative of changes in international competitiveness, for whatever reason, they would have the option of asking that the relevant series be omitted from their country page in IFS.

Several Directors had emphasized the need for the indicators of real effective exchange rates to be as up to date as possible, the staff representative noted. In principle, the staff would be prepared to use estimates of recent price indices for that purpose, and it could seek the views of national authorities as to their willingness to allow the use of staff estimates of price levels for recent months in calculating real effective exchange rates. He had taken note of Mr. Donoso's proposal that such estimates might possibly be published in some different way, to make their tentative nature clear.

Finally, the staff representative from the Research Department recalled that Mr. Dallara had asked whether--in the case of the 17 industrial countries for which indicators of cost competitiveness in manufacturing were currently published in IFS--the staff could also publish nominal and real effective exchange rate indices using the same methodology that had been introduced for the developing countries and the smaller industrial countries. The advantage would be a somewhat wider index of the real effective exchange rate and the nominal effective exchange rate for the industrial countries than was given by the existing indicators of competitiveness in manufacturing. The disadvantage would be that the staff would be unable to use indices based on unit labor costs, which it considered to be a better measure of costs for those countries whose trade was relatively more concentrated in manufactures; unit labor costs were not available for all of the partner countries that would be included in the broader indices. However, if publication of two different sets of indices would not unlikely lead to unnecessary confusion, further thought could be given to Mr. Dallara's proposal.

Mr. Posthumus said that the characterization of interim consultations by the Director of the Exchange and Trade Relations Department and the Director of the Legal Department was of some concern to him. A number of Executive Directors had viewed the idea with some suspicion, and if the interim consultation became a nonconsultation, that suspicion would grow and the idea would never be put into practice.

Mr. Dallara inquired whether the Executive Board conducted any general review of the movement of countries from Article XIV to Article VIII and whether it should not in fact pay some attention to the notion of the transitional arrangements of Article XIV.

The Director of the Exchange and Trade Relations Department responded that so far, the acceptance of the obligations of Article VIII had been a matter for the member, with the Executive Board approving the member's decision to change its status once it had been shown to have no restrictions. The Executive Board had not taken a strong position on the termination of the transitional arrangements of Article XIV, either in general or in specific cases.

In response to Mr. Posthumus, the Director of the Exchange and Trade Relations Department reiterated that the intention of the staff had been to make a full attempt in the interim consultation to reach the same main judgments as it did for Article IV consultations. The staff report would be much shorter, as would the background paper on recent economic developments, which might even not be necessary in all cases. The change in procedures was sufficiently experimental for the interim consultation to be classified differently, and as something less than an Article IV consultation, unless of course the Executive Board wished to identify it as a continuation of the consultation cycle. As noted by the Director of the Legal Department, the term consultation had so far been used only when the Executive Board took part in the process. Certainly, the opportunity for Board discussion should remain open. The precise procedures were still open for consideration, and could be decided on the basis of experience.

Mr. Reddy remarked that his point about the confidentiality of information had been intended as a general one, to indicate that the problem could arise on the side of the Fund as well as on that of members.

The Chairman made the following summing up:

General observations

Once again Directors have emphasized the great importance that they attach to the role of the Fund in the area of surveillance in promoting the orderly underlying conditions necessary for economic and financial stability. They welcomed in this context the increased emphasis in recent years on international economic interactions and on the need for the coordination of economic and financial policies, in particular among major countries.

Directors stressed, in this context, the crucial role of effective Fund surveillance. They noted, in particular, the central role of the Fund in sharpening the analytical basis, through multilateral and bilateral surveillance, for the assessment of the consequences of policies for external payments developments over the medium term. Several Directors also stressed that a strong role of the Fund was needed to ensure that policy discussions and decisions affecting the international economic and financial environment effectively took into account the views of the entire Fund membership.

A number of Directors referred to the review of exchange rate developments in the staff paper (SM/87/29). Certain features highlighted there attracted attention, in particular the changes in trends in the 1980s in the real effective exchange rates of certain groups of countries whose currencies are pegged to one or other of the major currencies. Without going into the substance, I note that several Directors thought that these matters could usefully be brought back to the Board for discussion.

Against the background of these general observations, I will sum up your comments on the more specific points covered by the staff papers.

First, on the question of the publication of indicators of real effective exchange rates, most Directors have supported the proposal to publish in International Financial Statistics the indices of nominal and real effective exchange rates monitored under the Information Notice System, subject, of course, to the agreement of each member country concerned. Country authorities should be encouraged to develop the necessary data base and to provide the information to the Fund on a timely basis.

Second, on the frequency of consultations, while stressing the central importance of Article IV consultations, Directors generally agreed that some changes in procedures--to be implemented on an experimental basis--would help to reduce the work load of the Board and staff. The simplified interim consultation procedure--the so-called bi-cycle--proposed by Mr. Lundstrom received broad support from Directors, but there was also some interest in Mr. Dallara's suggestion to adopt for certain members a 24-month cycle with a staff visit in the intervening year.

A first set of questions on this subject concerned the range of countries for which a simplified consultation every second year would be appropriate. Directors agreed that regular annual consultations should continue to be held with members having Fund arrangements, members with possible balance of payments difficulties, and also larger countries. Directors, however, considered that the application of the latter two criteria could be adapted. In particular, some Directors suggested that the

range of application of the "larger country" criterion for full annual consultations could be narrowed to a lower number than the present 25 members with the largest Fund quotas. The appropriate consultation cycle for members with whom regular annual consultations are held at present because of uncertainty concerning the viability of their balance of payments would be examined, reflecting the strength of concerns about the member's balance of payments.

For other members, for whom the above criteria do not clearly apply, the adoption of the bi-cycle approach, or of a 24-month cycle, will be examined with the member's authorities. Several Directors also noted that other intervals between consultations, such as an 18-month cycle, would remain appropriate in certain cases. And it was further stressed that we should try to respect as much as possible the wish of those members--such as in Mr. Mwakani's or Mr. Abdallah's constituencies--who prefer to stay on the annual cycle.

A second set of questions concerned the coverage of simplified interim consultations. Directors agreed that the reporting for interim consultations would have to provide a sufficiently comprehensive updating and analysis of developments and policies, including the sustainability of policies in a medium-term perspective. Within these broad parameters, however, there should be considerable scope for economy. Moreover, I have taken careful note of the call from a number of Board members for shorter staff reports for regular consultations. Directors also agreed that background papers on recent economic developments could be omitted on the occasion of interim consultations and that they could be much simplified in many cases for which full consultations will continue to be held annually.

As regards the procedure to be followed for consideration by the Board of the staff reports for interim consultations, most Directors expressed a preference for the reports to be placed on the agenda as a matter of course but with an expectation that there would be no discussion. The member, management, or an Executive Director could, however, request a brief discussion if it was felt that substantive issues should be brought to the attention of the Board.

The staff will prepare a paper on the initiation of the new procedure for discussion and decision by the Board in May. The paper will include a list of those countries for which a simplified procedure is proposed, a discussion of how it would be initiated, and a clarification of the Board's involvement. In proceeding to implement the procedure for those countries for which it would be appropriate, it will be necessary, as some Directors have noted, to ensure some spreading out over time of the incidence of full and simplified consultations.

I have noted also some calls for further thought to be devoted to the Executive Board's own procedures, with the view of saving time to devote to policy and systemic issues.

Third, Directors considered the issue of the periodicity and form of Article XIV consultations raised in a separate legal paper. They agreed that Fund procedures should be adapted so that members availing themselves of the transitional arrangements of Article XIV, and retaining restrictions inconsistent with Article VIII, consult the Fund annually as to their further retention. The obligation to consult annually under Article XIV could be satisfied either jointly with a full Article IV consultation or in an interim consultation, which would not necessarily require Board discussion. Directors agreed to the proposed modification of Paragraph II of the "Procedures for Surveillance" in the 1977 surveillance document.

Fourth, on the use of indicators in consultations with individual countries, Directors emphasized the need for consultations to be based on analysis in a reasonably fully specified and quantified framework, including those variables on which discussions of indicators have focused. Directors considered, in particular, that greater specificity would help make both the analytical content of staff reports and the implications of policies in the short and medium term more transparent. Efforts to this end should not be limited to major countries only but should also be extended to other countries as well. For major countries, attention to indicators in the context of Article IV consultations should help to strengthen the assessment of policies in individual countries against the background of earlier multilateral assessments of policy interactions.

Directors recalled the conclusion of earlier discussions that supplemental consultations should not be automatic but should be used at the discretion of management when needed. Several Directors, however, noted the potential use of indicators to facilitate a closer and more frequent scrutiny of certain developments than would be possible through the normal consultation alone or in combination with discussions of the world economic outlook.

Fifth, on the confidentiality of Fund documents, most Directors who addressed this issue strongly urged members to observe rigorously the confidentiality of Fund documents in their dealings with creditors.

In conclusion, the decisions modifying Paragraph II of the "Procedures for Surveillance" and completing the annual review of the implementation of surveillance, the latter similar to those adopted in preceding years, will be circulated for adoption on a lapse of time basis.

APPROVED: October 6, 1987

LEO VAN HOUTVEN
Secretary

