

ARTICLE IV

Exchange Arrangements

NOTIFICATION OF EXCHANGE ARRANGEMENTS UNDER ARTICLE IV, SECTION 2

1. . . .*

2. The procedures set forth in Section IV of SM/77/277 [attached] are approved, and members shall be guided by the considerations in Section IV with respect to the prompt notification of any changes in their exchange arrangements.

3. . . .*

Decision No. 5712-(78/41)
March 23, 1978

Attachment

Section IV of SM/77/277

IV. Issues Connected with Subsequent Notification

Once the procedures for initial notification have been clarified, only a few issues remain to be dealt with in respect of subsequent notifications. One of these is the question of what would constitute a change in an exchange arrangement requiring notification. Clearly, any official action involving the adoption of a different type of arrangement would require notification. Furthermore, in cases where a member pegs its currency, it would be appropriate to notify the Fund of all changes in the peg; this would include not only every change in the central point around which a member was maintaining margins, but also those involving a change in the composition of a

* Not included in this volume.

composite, other than one occurring from a redistribution of currency weights on the basis of newly available trade or payments data.

For members with flexible exchange arrangements, it is more difficult to specify changes which will require notification to the Fund. For members classified as fixing the rate according to a set of indicators, it would seem an appropriate rule that they communicate to the Fund details of any discrete exchange rate changes that are not consistent with the changes produced by the set of indicators. It would also be expected, if the suggested approach outlined earlier in this paper is accepted, that all members maintaining flexible exchange arrangements be asked to notify the Fund whenever the authorities have taken a significant decision affecting such arrangements. This would involve, as a minimum, notification of such decisions whenever public policy statements have been issued. In addition, in any instance in which the Managing Director considered that a significant change had occurred in a member's exchange policy (including intervention arrangements), and no notification has been received from that member, he would consult with the member to request information on the background to such developments. If considered appropriate, a formal notification of the change would be sought from the member.

Members would be expected to inform the Fund of all actions involving exchange taxes and subsidies. Indeed, under Article VIII, Section 3, members will continue to be required to request prior Fund approval of any multiple currency practices that may be involved in such actions.

Upon receipt of notification of a change in exchange arrangements from a member the staff would circulate it to the Executive Board. If the Board wishes, it could continue to be the normal practice that whenever a change is significant, its communication to the Board would be followed promptly by a staff paper describing the context of the change in policy and giving the staff's assessment.

SURVEILLANCE OVER EXCHANGE RATE POLICIES

1. The Executive Board has discussed the implementation of Article IV of the proposed Second Amendment of the Articles of Agree-

ment and has approved the attached document entitled "Surveillance over Exchange Rate Policies." The Fund shall act in accordance with this document when the Second Amendment becomes effective. In the period before that date the Fund shall continue to conduct consultations in accordance with present procedures and decisions.

2. The Fund shall review the document entitled "Surveillance over Exchange Rate Policies" at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board.

*Decision No. 5392-(77/63)
April 29, 1977, as amended by
Decision No. 8564-(87/59), April 1, 1987,
Decision No. 8856-(88/64), April 22, 1988,
and Decision No. 10950-(95/37), April 10, 1995*

Surveillance over Exchange Rate Policies

General Principles

Article IV, Section 3(a) provides that "The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article." Article IV, Section 3(b) provides that in order to fulfill its functions under 3(a), "The Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." Article IV, Section 3(b) also provides that "The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members." In addition, Article IV, Section 3(b)

requires that "each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

The principles and procedures set out below, which apply to all members whatever their exchange arrangements and whatever their balance of payments position, are adopted by the Fund in order to perform its functions under Section 3(b). They are not necessarily comprehensive and are subject to reconsideration in the light of experience. They do not deal directly with the Fund's responsibilities referred to in Section 3(a), although it is recognized that there is a close relationship between domestic and international economic policies. This relationship is emphasized in Article IV which includes the following provision: "Recognizing . . . that a principal objective [of the international monetary system] is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."

Principles for the Guidance of Members' Exchange Rate Policies

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

Principles of Fund Surveillance over Exchange Rate Policies

1. The surveillance of exchange rate policies shall be adapted to the needs of international adjustment as they develop. The function-

ing of the international adjustment process shall be kept under review by the Executive Board and Interim Committee and the assessment of its operation shall be taken into account in the implementation of the principles set forth below.

2. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market;

(ii) an unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi-official lending, for balance of payments purposes;

(iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or

(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

(iv) the pursuit, for balance of payments purposes, of monetary and other domestic financial policies that provide abnormal encouragement or discouragement to capital flows;

(v) behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements; and

(vi) unsustainable flows of private capital.

3. The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's

balance of payments, including the size and sustainability of capital flows, against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments. The appraisal shall take into account the extent to which the policies of the member, including its exchange rate policies, serve the objectives of the continuing development of the orderly underlying conditions that are necessary for financial stability, the promotion of sustained sound economic growth, and reasonable levels of employment.

The next review of the document shall be conducted no later than September 15, 1996.

Procedures for Surveillance

I. Each member shall notify the Fund in appropriate detail within thirty days after the Second Amendment becomes effective of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member shall also notify the Fund promptly of any changes in its exchange arrangements.

II. Members shall consult with the Fund regularly under Article IV. In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV.

III. Broad developments in exchange rates will be reviewed periodically by the Executive Board, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct special consultations in preparing for these discussions.

IV. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and exchange policies, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its exchange rate policies.

V. If, in the interval between Article IV consultations, the Managing Director, taking into account any views that may have been expressed by other members, considers that a member's exchange rate policies may not be in accord with the exchange rate principles, he shall raise the matter informally and confidentially with the member, and shall conclude promptly whether there is a question of the observance of the principles. If he concludes that there is such a question, he shall initiate and conduct on a confidential basis a discussion with the member under Article IV, Section 3(b). As soon as possible after the completion of such a discussion, and in any event not later than four months after its initiation, the Managing Director shall report to the Executive Board on the results of the discussion. If, however, the Managing Director is satisfied that the principles are being observed, he shall informally advise all Executive Directors, and the staff shall report on the discussion in the context of the next Article IV consultation; but the Managing Director shall not place the matter on the agenda of the Executive Board unless the member requests that this procedure be followed.

VI. The Executive Board shall review the general implementation of the Fund's surveillance over members' exchange rate policies at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board.

SURVEILLANCE: PROCEDURES

1. *Review.* The Executive Board has reviewed the procedures relating to the Fund's surveillance over members' exchange rate policies. These procedures, and the procedures for regular consultations under Article IV, will be reviewed again by the Executive Board in December 1979. The Executive Board will review the document "Surveillance over Exchange Rate Policies" at an appropriate time

not later than April 1, 1980, as provided for in paragraph 2 of Decision No. 5392-(77/63), adopted April 29, 1977. . .

2. . . .*

3. *Supplemental surveillance procedures.*

(a) Whenever the Managing Director considers that important economic or financial developments are likely to affect a member's exchange rate policies or the behavior of the exchange rate of its currency, he shall initiate informally and confidentially a discussion with the member. After such discussion the Managing Director may report to the Executive Board or informally advise the Executive Directors and, if the Executive Board considers it appropriate, an ad hoc Article IV consultation between the member and the Fund shall be conducted in accordance with the procedure set out in subparagraph (b) below.

(b) A staff report will be circulated to the Executive Directors under cover of a note from the Secretary specifying a tentative date for Executive Board discussion which will be at least 15 days later than the date upon which the report is circulated. The Secretary's note will also set out a draft decision taking note of the staff report and completing the ad hoc consultation without discussion or approval of the views contained in the report; the decision will be adopted upon the expiration of the two-week period following the circulation of the staff report to the Executive Directors unless, within such period, there is a request from an Executive Director or decision of the Managing Director to place the report on the agenda of the Executive Board. If the staff report is placed on the agenda, the Executive Board will discuss the report and will reach conclusions which will be reflected in a summing up.

(c) Unless otherwise decided by the Executive Board, the conduct of an ad hoc consultation with a member will not affect the consul-

*Not included in this volume.

tation cycle applicable to the member or the deadline for completion of the next consultation with the member.

Decision No. 6026-(79/13)
January 22, 1979, as amended by
Decision No. 10273-(93/15)
January 29, 1993, and
Decision No. 10364-(93/67)
May 10, 1993

SURVEILLANCE OVER EXCHANGE RATE POLICIES: REVIEW

1. . . .

2. The Executive Board also has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than January 31, 1993.

Decision No. 9499-(90/111)
July 11, 1990, as amended by
Decision Nos. 10072-(92/85), July 2, 1992 and
10159-(92/122), October 7, 1992

IMPLEMENTATION OF PROCEDURES FOR SURVEILLANCE: REVIEW

1. The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, including the procedures for the conduct of consultations under Article IV, which in principle shall comprehend the regular consultations under Article VIII and Article XIV, and approves the procedures as described in SM/92/234, in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than February 28, 1995.

2. The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than February 28, 1995.

...

Decision No. 10273-(93/15)
January 29, 1993,
as amended by
Decision No. 10886-(95/2)
January 6, 1995

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance Over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended. The next review shall be conducted no later than September 15, 1996.

Decision No. 10949-(95/37)
April 10, 1995

ARTICLE IV CONSULTATION CYCLES—REVIEW OF TEMPORARY CHANGES

The Executive Board has reviewed the temporary shift in consultation cycles as provided for in the statement of the Chairman at EBM/91/157 (11/22/91) and decides that, effective November 22, 1992, consultations with members shall be held in accordance with Appendix I of EBD/92/240 (10/9/92).

Decision No. 10168-(92/127)
October 15, 1992

**BIENNIAL REVIEW OF THE FUND'S SURVEILLANCE POLICY—
TERMINATION OF BICYCLIC CONSULTATION PROCEDURE**

The bicyclic consultation procedure shall be terminated and each member currently on the bicyclic procedure shall be immediately placed on the standard 12-month cycle; the first consultation with each such member that is completed after the adoption of this decision shall be conducted in accordance with the procedures that apply to consultations under the standard 12-month cycle, and the deadline for completion that applied under the bicyclic procedure shall continue to apply to such consultation.

*Decision No. 10362-(93/67)
May 10, 1993*

**SURVEILLANCE: PROCEDURES—IMPLEMENTATION OF THREE-
MONTH PERIOD**

The Executive Board approves the proposed method of applying the three-month rule for implementing the procedures for surveillance, set forth in EBD/83/161 [below].

*Decision No. 7427-(83/83)
June 8, 1983*

EBD/83/161

The document entitled "Surveillance over Exchange Rate Policies," attached to Decision No. 5392-(77/63), includes certain Procedures for Surveillance. Of these, Procedure II states that "Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV." This three-month period begins from the last day of discussions between the authorities and the staff mission and it is counted off on a calendar basis. Accordingly, the first Board day (*viz.*, Monday, Wednesday, or Friday) upon the completion of the three-month period is regarded as the deadline for Executive Board discussion. Sometimes Executive Board consideration and completion of the Article IV consultation are delayed beyond the three-month deadline (see SM/83/43, 3/1/83, pp. 29-30), and in such cases, Board approval is usually sought on a lapse-of-time basis for an extension of the period. The procedure is administered flexibly in the sense that if Board discussion is scheduled just one or two Board days after the deadline, the three-month waiver paper seeking Board approval is not necessarily circulated.

However, there are certain periods during the year when Board meetings would normally be avoided for the convenience of Executive Directors. For example, in 1983 Board meetings were not scheduled in the weeks of February 7-11 and April 25-29 because of Interim and Development Committee meetings, respectively. For the same reason, Board meetings are not likely to be scheduled during August 8-19, 1983 because of the informal Board recess and during approximately September 16-30 because of the Annual Meetings and ancillary meetings, including caucus meetings. It would be appropriate and convenient to recognize these recurrent and normal gaps in the Board's schedule when applying the three-month rule. Accordingly, if a three-month deadline falls in a period such as one of those mentioned above when a Board meeting would normally not be scheduled, the Friday of the week immediately following such a period would be regarded as the applicable deadline for the purposes of the rule. . . .

*Concluding Remarks by the Chairman—Biennial Review
of the Implementation of Surveillance over Exchange
Rate Policies and of the 1977 Surveillance Decision
Executive Board Meeting 91/15, February 8, 1991*

This discussion concludes the Board's consideration of the procedural questions that were not resolved upon the completion on July 11, 1990 of the review of the implementation of Fund surveillance over members' exchange rate policies and of the 1977 Surveillance Decision.

Two areas remained outstanding following the previous rounds of discussion of the biennial review in July and September last year. The first is the question of Board procedures for dealing with interim Article IV consultation reports under the bicyclic procedure and for completing the consultations; the second is a staff operational guidance note, which the Board has been asked to endorse (*Attachment I*).

Executive Directors have reasserted that surveillance should be implemented under the Executive Board's guidance. With the affirmation by the Executive Board of the principle of annual consultations with all members, including those under the bicyclic procedure, the Board has agreed to procedures under which the interim report may be discussed or the consultation completed without discussion. These new procedures for dealing with interim consultation reports are spelled out in the staff operational guidance note (paragraph 2). The guidance note, as amended and endorsed by the Board today, refines the operational elements of the Chairman's summing up of August 23, 1990; the summing up, amended slightly in light of the Executive Directors' informal meeting of September 17, 1990, in all other respects remains valid (*Attachment II*). The Board has also approved today an amendment to the 1977 Decision on Surveillance over Exchange Rate Policies, which is required to implement the new Board procedures with respect to interim consultation reports.

I would also note the broad call on the staff to streamline consultation reports, especially if the circumstances and policies of the country have not changed significantly from the previous year. A

number of Directors again either supported or indicated an interest in further exploring the possibility of expanding the application of the bicyclic procedure to more countries. The staff will continue to look for opportunities to widen the use of the bicyclic procedure.

Attachment I

Surveillance Review—Staff Operational Guidance Note

1. The Executive Board confirmed the principle of annual consultations with all members, including under the bicyclic procedure.* In all cases, consultation discussions between the staff and the authorities will result in a staff report to be submitted for consideration by the Executive Board. In the case of staff reports for interim Article IV consultations under the bicyclic procedure, the Board may discuss the staff report or complete the consultation without discussion and without reaching conclusions. In all other cases, the Executive Board will reach conclusions which would be reflected in a summing up of the discussions.

2. Staff reports on interim Article IV consultations will be circulated to the Executive Directors and a tentative date for possible Executive Board discussion will be indicated in the covering note. However, unless there is a request from an Executive Director for a discussion of the report or the Managing Director places the report on the agenda of the Executive Board within two weeks of its circulation, the interim consultation with the member will have been completed without discussion. In such a case, the Executive Board decision completing the consultation will take note of the staff report, but will not endorse or approve the conclusions contained in the appraisal section of the staff report. The decision will become effective on the expiration of the two-week period following the circulation of the staff report to the Executive Directors.

*Except those countries under an 18- or 24-month cycle. Under previous bicyclic procedure, consultations were held every two years and a report on interim discussions between the staff and the authorities was circulated to the Executive Board for information. Under this modified bicyclic procedure, the Executive Board will conclude consultations with the member on the basis of the interim discussion reports.

3. Staff reports will focus in each case on the core areas of surveillance over exchange rate policies, within the framework of macroeconomic and related structural policies, and will examine whether these policies are conducive to the achievement of reasonable price stability, sustainable external positions, and orderly economic growth. Beyond this coverage of the core policy areas, the staff should exercise judgment regarding the scope of consultation reports, and selectivity rather than uniformity of coverage of subjects will be encouraged.

4. The staff should attempt to streamline a consultation report, especially if the circumstances of the country have not changed significantly from the previous year. More in-depth reporting should be provided where significant changes have occurred in policy or external circumstances since the last staff paper or in cases where it is judged that policy issues need to be covered in greater depth or wider scope. In any event, a comprehensive staff report would be expected for each member at least once every two years. For countries using Fund resources, consultation reports will be folded into the other reports prepared in connection with the use of Fund resources to the fullest extent possible. Special efforts will be made to shorten and focus as much as possible the interim reports under the bicyclic procedure. All reports will be kept concise.

5. Generally, the paper on recent economic developments (RED) would be issued every other year, unless the staff and the authorities deem it appropriate to issue more frequent REDs. This may be the case especially where such reports would be helpful to the member in formulating its own policies or in obtaining external support. Analytic papers or reports on special topics could be presented at any time.

6. The *World Economic Outlook* will continue to evolve as the multilateral framework for bilateral surveillance, as well as the basis for integrating the analysis of individual countries, including in particular the seven major industrial countries, into a larger multilateral context.

7. The staff will endeavor to strengthen the coverage of regional and cross-country issues, particularly in the context of the WEO, but also, where appropriate, in consultation or special reports.