A View from the International Monetary Fund

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I guess I am the bureaucrat from the International Monetary Fund that Barry Eichengreen mentioned. As you can imagine, I have been tempted at any number of moments to jump up and give "a view from the Fund" on various comments that were being made. But I have learned over the years that if you wait long enough at conferences like this, sooner or later every view of the Fund surfaces, and this conference has not disappointed my expectations.

I will not talk about the Asian crisis. We have already discussed our views on that at length, and I think our positions are pretty clear. We will see how events continue to unfold and what history will begin to say about the way in which different aspects of those crises were handled. Mistakes were made; that is quite clear. But I think that the way the countries are now coming back is testament to the validity of the basic approach that was taken.

There has been a great deal of discussion about capital controls and about exchange rate regimes. I do not want to say much more about those, but two comments, perhaps. On exchange rate regimes, I am in the camp of those who think the announcement of the death of the intermediate solutions between the polar extremes is probably premature. I might cite a line that I believe comes from Stanley Fischer, that the academic community will probably decide on exactly the optimal exchange rate regime the day before the world adopts a single currency!

On capital controls, I would refer to the principles contained in Michel Camdessus' remarks, which have been favorably cited. I think they contain a pragmatic set of principles. Some of the remarks here

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yesterday made me begin to think that perhaps even those principles are subject to some question. But I believe there is common agreement on them. A massive amount of work remains to be done, however, in the context of each individual country, to get these principles applied, whether it is the proper sequencing for liberalization, or the nature of the controls that may be put in place, or the timing of those controls, and other relevant issues.

Let me spend my time on three other points: the first, on Fund surveillance, especially as it relates to certain elements of the new architecture; the second, on the new Contingent Credit Line (CCL) facility and its connection (or not) to the question of lender of last resort. Then some points on involving the private sector. I want to concentrate on these three issues because I think, in fact, that more "building" is probably going on, to use a phrase from an earlier session today, than meets the eye. A lot of changes are on the way, and a lot is happening at the Fund—for instance, in connection with surveillance.

In fact, a sea change is taking place in both the content and the use of surveillance. You may call it mission creep, or mandate creep, or whatever you want. But the fact is that the international community is asking the IMF to do a number of things under the surveillance mandate that we have not done before, or have not done to the extent that we will be doing them. A few examples have already been mentioned. Transparency and standards obviously fit in here. In terms of broadening surveillance, at the request of the G-22 and the IMF's board, we have begun to prepare transparency reports for each of the member countries. This is a very experimental process. We have done reports for the United Kingdom, for Australia, and for Argentina. They are different in format and in content. We are trying to find a process whereby we can do some of the things that Barry Eichengreen suggested, and we have involved the private sector and other institutions.

Some of the standards fall to us directly: the data dissemination standards, the codes of practice on fiscal policy and on monetary and financial policy, and a connection with the Basle core principles. The purpose, of course, is to bring these standards to countries and encourage them to implement them, but also to be able to report on their compliance. Frankly, I am not sure what the best format for that kind of reporting will be. I think we are a long way from what Eichengreen is looking for, in terms of a rating from the Fund in the context of these reports. But the experimentation is going on.

What will be important here is the way the private sector reacts to this. If the private sector begins to reward countries for having good standards, for being tough on their institutions and on their banks, and for implementing internationally accepted standards, and if this begins to show up in the spreads the countries pay, then surveillance will be given a great push forward, much more than we could do simply through the review process itself.

The other area where a lot of additional new work is going on is in surveillance of the financial sector. This effort seeks to bring Basle core principles to countries, but also to assess the extent to which vulnerability may be found in the banking system and in the financial system more generally. This is another area where we need to reach out for lots of assistance. One of the countries that has volunteered to be a first candidate for one of these financial sector surveillance exercises is Canada. More will be coming forward very quickly. We are also doing a good deal more in encouraging regional surveillance processes, the kind of thing that Toyoo Gyohten was talking about yesterday.

So much for the content of surveillance; but here I would add two quick points on its use, because I think this idea really is key. What comes out of the surveillance process will be much more public in the future than it has been in the past. Transparency reports, it has already been decided, will be published. In fact the three reports that I mentioned are now on the IMF web site, and we are asking the private sector to tell us if they think these are useful. We also have a pilot project under way now to release Article IV staff reports. This policy change will go a long way, I think, to meeting Henry Kaufman's suggestion that a better flow of information would greatly assist prevention. It is not just data and facts that can help, but views and judgments as well. It has been a tough slog with the Fund membership to get as far as we have. But I think we now have a solid consensus to press forward, and to press forward aggressively, in all of these areas.

Second, let me talk a bit about the Contingent Credit Line. As you know, it is meant to be a preventive mechanism, involving a commitment of resources to a country before it gets into difficulty. It is intended to protect countries from contagion and from the spillover effects from problems arising elsewhere in global markets. Let me describe the eligibility criteria, if I may, just to give you a feel for the kinds of countries that could qualify for assistance under the CCL.

They are the countries whose policies have been strongly endorsed in the Article IV surveillance process, that do not need Fund resources under current circumstances or prospects, and that are making good progress in adhering to international standards and codes of conduct. Application to the CCL will involve the presentation of a financial and economic program to the Fund. Last, let me read this one criterion: A country "that is maintaining constructive relations with its private creditors with a view to facilitating appropriate involvement of the private sector and has made satisfactory progress in limiting external vulnerability through the management of the level and the structure of its external debt and international reserves."

I read this out because it contains a good many elements of the new architecture: transparency, standards, private sector involvement, codes of good practice, all of which are beginning to come together in a fairly constructive way in the context of the CCL. It is interesting to note that in 1994 we had discussions about something called the short-term financing facility, which would have been a credit line triggered in part by judgments made by the Executive Board in the context of Article IV consultations. The proposal did not go anywhere. It got blown off the tracks, partly by Mexico but also by an inability to come to grips with the kind of conditionality that would provide the comfort that the Board requires.

I think the architecture discussion explains why we have been able to construct something like the CCL in 1999, when we could not come to agreement on a short-term financing facility in 1994. In the context of these architecture discussions, Fund members have begun to clarify the characteristics that they want to see in the management of an economy before they are willing to pre-commit resources under less than usual conditionality.

This development also goes some way toward establishing the kinds of criteria that Charles Calomiris has suggested in his ideas for lender of last resort. But by no means does it go all the way. The standards and codes are nowhere near developed, let alone implemented, let alone assessed to the extent that would be necessary to allow judging a member's eligibility for access to these kinds of resources. Nor, of course, are the Fund's resources unlimited, nor is there a mechanism for collateral. The Fund will seek the same kind of collateral in the context of CCL, after it is activated, as it does under its other facilities; that is, by policy conditionality. But I think the CCL does hold promise for a really dramatic change in the way the Fund does business, if it takes hold. So far, we do not have any takers, but that is partly because the idea is still skeletal. What we want to see is some really good countries, with really good policies, come in and begin to set precedents under this facility.

Finally, let me say a few words about involving the private sector. Much of this effort must focus on prevention. Much of the discussion yesterday and this morning went to describe the kind of preventive mechanisms that are being put in place to reduce country vulnerability and, simultaneously, to bring in the private sector. Private contingent credit lines, structured notes, various kinds of instruments and mechanisms have surfaced to help this process. The other element is crisis resolution. There is no consensus on most of the ideas Barry Eichengreen has enumerated, such as modification of bond contracts, the possibility of eliminating calls in short-term instruments, and possible authority for the Fund to endorse a stay on debtor payments to private creditors. There is board agreement only on the Fund lending into arrears to private creditors. All of the other items are under discussion, however.

There are two camps here. One seems to want to put into place a fairly specific framework to convey the rules to the private sector, so that the private sector will know how the Fund will react in the context of a crisis. The other camp seems to say, let us build the instruments, develop the mechanisms, have the kind of tools that the community needs to be able to deal with these situations, but let us keep some constructive ambiguity in the process. I confess I find myself in the latter camp, partly because I think there is still a case for doing business the old-fashioned way. By the old-fashioned way, I mean fostering a situation where some official financing and adjustment by the country can result in a spontaneous recovery of confidence by the private markets. If you get the private markets to come into most countries through a spontaneous recovery of confidence, it should be only in the extreme case where we have to go for the other kind of measures.

Where this will go, I am not quite sure. We have seen Korea, we have seen Indonesia, and we have seen other cases in the past couple of years. Sebastian Edwards said that the architecture discussion would result only in a fiddling around the edges. I am not sure of that. Let me ask a couple of questions that will illustrate why I am not sure. Will private CCLs work? And will they work without the offset that dynamic hedging can create? Second, will short-term borrowing be more limited? Third, will puts and medium- and long-term debt continue to be problems? Fourth, will the private sector cooperate in finding voluntary solutions when they are needed? This is key. We are dealing now with a number of cases: Pakistan, Ecuador, Ukraine, and again, Romania.

The private sector has been passed the ball. They have said, "Bring the problem cases to us, we will help the countries through." They now have these problem cases. Let us see if they help the countries through. If they do not, my sense is that official community will become more impatient and pressure and support will grow for some other mechanisms that are now under discussion; but we will have to wait to see. I think that the test is unfolding, in fact, even as we speak.