Speech by

GRAHAM HACCHE

DEPUTY DIRECTOR, EXTERNAL RELATIONS DEPARTMENT
INTERNATIONAL MONETARY FUND

Central Bank Communications: Transparency at the IMF

At the IMF Regional Seminar on Central Bank Communications, Mumbai, India
January 23, 2006

TRANSPARENCY AT THE IMF

REMARKS AT IMF REGIONAL SEMINAR ON CENTRAL BANK COMMUNICATIONS
JANUARY 22-24, 2006
MUMBAI, INDIA

GRAHAM HACCHE

The IMF used to be, like many other financial institutions, a secretive organization—probably more secretive than many central banks. We tried to keep our work out of the public eye, often with great success. And frankly, most of our member governments liked it that way. It means that when they received advice they did not like, they could more easily reject it, or ignore it. We dealt largely with government and central bank officials with responsibility and expertise in the areas of our mandate. And the Fund had no tradition of broader public engagement.

All that has changed in the past decade. In fact, this has surely been the biggest change in this period in the way the Fund operates. Why has it occurred? I think that to a large extent the reasons are similar to the reasons why many central banks have become more transparent over the same period:

- First, *keeping markets well informed*, so that they can work more effectively and be less prone to surprises. This should not only reduce market instability and the risk of crises, but also increase the effectiveness of policy.
- Second, *promoting understanding of policies* and thus their credibility, sustainability, and effectiveness;
- Third, *to broaden accountability*: central banks have become more transparent partly to broaden their accountability, and thus to bolster the perceived legitimacy of their roles as independent institutions.
- Another possible reason, I would suggest, for increased central bank transparency is the change that has occurred in many countries in the past decade or so in the *public's expectations about the transparency and accountability of government institutions*. This is related partly to the development of media that are less reticent than in the past in challenging and questioning the decisions of government and the behavior or officials.

Each of these explanations of, or motivations for, increased central bank transparency is relevant and applicable to the increased transparency of the IMF. For the Fund and its member countries, the emerging market crises in Mexico and Asia between 1994 and 1998 were a formative experience. It was clear that these crises happened partly because financial markets that had been deprived of information became suddenly aware of important facts. The Fund applied the lessons from these crises, in part, by helping to promote, in its member countries, increased transparency in the conduct of monetary and fiscal policies, and improved data standards, including through the promotion of standards and codes. At the same time, and in broader contexts than financial crises—but including policy programs supported by IMF loans—the Fund increased the emphasis it attached to the importance of national 'ownership' of policies for their sustainability and effectiveness, pointing to the need for transparency if public support for policies was to be gained and maintained. The Fund also pointed to the fact that transparency increases the incentives on policymakers to strengthen their policies and institutions. For all these reasons, the IMF promoted transparency in member countries, and the increase in transparency of the IMF itself has occurred naturally, in association with this.

But there was another motivation for increased transparency at the Fund. For the IMF—more, I believe, than for any central bank—increased transparency was viewed as a necessary response to criticisms of it that threatened its effectiveness. The policies that we recommend to our members stand a better chance of adoption if the public credibility and esteem of the Fund is high; and the Fund's effectiveness was palpably threatened. Increased IMF transparency was needed to deal with attacks that were often not well informed and that reached a peak in the wake of the Asian crisis. How did we know that the attacks tended not to be well informed? Influential in our thinking were the results of a survey we conducted in 1998-99, as the Asian crises was receding. The survey was a global poll in which 18 countries were selected to represent both creditor and borrower members, and countries that had recent experience of economic crises. The respondents were 400 senior journalists, business people, members of think tanks, and academic economists. The survey found that our 'favorability rating' was positively related to the respondent's familiarity with, and knowledge of, the Fund's role and work: the more familiar they were with our work, the more favorably disposed to it they tended to be. A clear implication was that to reduce opposition, the Fund needed to open up, and to work to improve understanding of its role and operations.

And so, since the mid- to late 1990s, thee has been what has been described as a 'transparency revolution' at the IMF. Most, if not all, of our member governments are now persuaded that transparency about economic developments and economic policies is desirable. One important illustration of the IMF's increased transparency that has been supported by our member countries is the increased amount of material that we publish and that is now available on our website. The IMF used to publish—up to about 1997—hardly anything, except for research papers, including some background papers to our country reports, the *World Economic Outlook*, the *International Capital Markets Report*, and the Executive Board's *Annual Report*; now there is hardly anything among our official documents that we do not publish.

An example is provided by our so-called Article IV country reports, which give the results of the IMF's annual consultations with each of its member countries. Article IV reports, as you know, provide information on the state of a country's economy, its future outlook, the government's economic policy plans, and the Fund's assessment and advice. The reports can be published only with the consent of the member country concerned, and they began to be released in 1997. In 2004, the Fund began to implement a policy whereby publication of these reports, though still subject to the consent of he member country, would be presumed. Article IV reports are now published for about 82 percent of member countries—that was the percentage published in the year to October 2005. In fact, the country reports for every one of the advanced economies are published—including, in the Asia-Pacific region, Australia, Japan, Korea, New Zealand and Singapore. Among emerging market and developing countries, the publication rate averages 79 percent, ranging from 100 percent for the countries of central and eastern Europe and 94 percent for Russian and the other countries of the Commonwealth of Independent States, down to 63 percent (the lowest regional proportion) in Latin America and the Caribbean, with Asia at 68 percent. So there are some significant regional variations, but the general trend in publication of country reports has been upwards.

Apart from country reports, including reports related to IMF loans as well as Article IV consultation reports, the Fund releases "Public Information Notices' (PINs), which summarize Executive Board discussions and the paper discussed, in more than 90 percent of country cases and about 75 percent of discussions of general policy papers. In fact, PINs were introduced in 1997 as the first step in bringing greater transparency to the IMF's country surveillance. We also post on the website weekly data on the IMF's own finances, and press releases, at a rate approaching one a day, on breaking news. To give some more numbers, last year—2005—the Fund put out 480 press releases and PINs (with press releases representing more than 300 of these items). This was 50 percent higher than just three years earlier, in 2002, and a multiple of the number of comparable items released a decade ago. Another instrument of transparency is provided by the press briefings given every two weeks by Director of our External Relations Department, the transcripts of which usually appear on the website within 24 hours. And the Managing Director, in a press briefing at the end of 2005, indicated his intention to give press briefings to review developments on a six-monthly basis. We also have a password-protected website for journalists and an e-mail notification system for material posted on the public website. On our public website, on average, about ten items are now posted every working day. Of course we also publish a large number of books and research papers, and a variety of economic statistics collections.

But increasingly, IMF transparency has extended beyond the simple publication of official documents and other material and listening to our critics, to more active outreach by IMF management and staff and engagement in public policy debates. At the country level, of course, this can be done only with the agreement of the national authorities. The IMF has increased outreach to parliamentarians, the private financial sector, labor unions, religious groups, and other civil society organizations, the media, and the general public. This outreach, or dialogue, is motivated partly by the view, mentioned earlier, that both the IMF and our member governments will be more effective if the policies we promote command broad support and 'ownership' in society. And our Executive Board and management have put special emphasis on the importance of dialogue with parliamentarians, because of their role as public representatives in legislation and policy-making, and because of their influence on public opinion.

This extended form of transparency—including outreach and dialogue with non-official groups and the general public—has also been motivated by a recognition of the need for the IMF to be accountable more broadly than was viewed as necessary or appropriate a decade or so ago. The Fund is still accountable, first and foremost, to our member governments, though the Board of Governors on which every member country has a member; through the Executive Board, whose members are appointed or elected by our 184 member countries; and through the IMFC, the advisory body of ministers and central bank governors who are appointed or elected in the same way. But we have also come to recognize a broader accountability, to influential groups and the public at large. Moreover, IMF transparency, by ensuring public and professional scrutiny of IMF analysis, advice, and policies, strengthens the incentives for the Fund to perform better, including through worthwhile reforms.

How effective and successful has the IMF's transparency revolution been? Our analysis of media reports shows that there has been a substantial decline in references to the IMF as a 'secretive' organization. Our openness itself has become part by our message. Attacks on the IMF seem to have declined from their peaks. It is true that this may reflect more benign economic conditions and an absence of crises, but the more benign economic conditions and absence of crises may, of course, owe something to the improvements in transparency and other policy improvements to which the IMF has contributed. I believe that our work with civil society organizations has improved our mutual understanding, and that our work with parliamentarians in many countries has been appreciated by them, and that it has also taught us a lot. But there is much more work to do, including in making the vast output of our published material more easily digestible—that is, getting from transparency to clarity. At the same time, it must be recognized that there are limits to our transparency and communications. One of the challenges we face is the lack of resources to be a multilingual institution—a challenge not faced to the same extent by central banks. Also, of course, the IMF does have a role as a candid and confidential advisor to its member governments, and it cannot publish everything, such as confidential correspondence with ministers, at least in real time.

There is certainly more progress that we could make in terms of transparency, but what remains to be done is probably less than what has already been done.