

File- Monetary Policy Issues-Exchange Rate
Intervention – Part A

Reference MG-MAMC/D/0002/001

File begins 21/01/1987

File ends 02/04/1987

Pages 59-80

John Williamson
Senior Fellow
Institute for International Economics

Introduction

The near-consensus of the early 1980s held that the system would look after itself provided each country looked after its own fundamentals. That view ceased to be orthodox on September 22, 1985, when the Plaza Agreement revived the concern of the major powers with the levels of their exchange rates. President Reagan's 1986 State of the Union address, and the meetings of the IMF Interim Committee and of the Tokyo summit in Spring 1986, suggested the inauguration of a serious drive to improve the international coordination of macroeconomic policies. Unhappily these initiatives seem to have degenerated into trans-Pacific and more especially trans-Atlantic bickering about economic policy since the Tokyo summit.

If the major countries are going to have objectives for their exchange rates, it is important that these be consistent. The alternative would be at best periodic outbursts of the sort of bickering witnessed recently, with its potential for confusing market expectations. At worst, squabbles could degenerate into economic warfare. The (n-1) problem leaves little choice between going back to a deliberate attempt to avoid targets for external economic variables (like current accounts or exchange rates), and going forward to rebuild an international monetary system.

* A paper prepared for a meeting of central bank and academic economists held in November 1986. The author acknowledges helpful comments on a previous draft from C. Fred Bergsten and Peter Kenen. Copyright: Institute for International Economics 1986. All rights reserved.

The essence of any system is acceptance of some measure of a common view as to the desirable principles of macroeconomic management. Countries agree to conduct their policies in accordance with those principles unless they find compelling cause to do otherwise, in the belief that the assurance that other countries will behave similarly will raise each country's own welfare. Naturally, endorsement of such an approach is likely only if an adequate measure of agreement on the desirable principles of macroeconomic management actually exists. This is not certain; but the aftermath of the ideological battles of the 1970s may be a favorable time to try and find a synthesis capable of commanding a consensus. The present emphasis on seeking policy strategies that are sustainable in the medium term provides a hopeful basis on which to build.

This paper examines two approaches to the reconstruction of an international monetary system--or to the improvement of international economic policy coordination, if that term is preferred--that have received considerable recent attention. The first is a target zone system for exchange rates, the second an indicator system. Unfortunately the latter is still so ill-defined that considerable liberties have to be taken in interpreting an indicator system before any analysis or comparison is possible.

The plan of the paper is as follows. The next section describes a target zone system and analyzes how it might be extended to contribute to policy coordination. A third section focuses on similar questions about a possible indicator system. A brief final section contains some concluding observations.

Target Zones

A system of target zones would involve a limited number of the major countries negotiating a set of mutually consistent targets for their effective exchange rates. The minimum number of countries that would be needed to create a meaningful system would be the three majors, the United States, Japan, and Germany. It would seem preferable, however, for the system to cover at least the SDR five (adding France and the United Kingdom) and probably better still if it involved the summit seven (adding Canada and Italy). Conceivably the members of the EMS exchange rate mechanism might enter collectively.

The target effective exchange rates would be selected by estimating the set of real effective exchange rates expected to secure basic balance in the medium term while maintaining economic activity in each country at the highest level consistent with the control of inflation. "Basic balance" refers to a situation in which the current account outcome is equal to the "underlying capital flow over the cycle", i.e., the average capital flow abstracting from special factors and reversible flows. Basic balance in this sense may be identified with Meade's (1951) concept of "external balance", just as the highest activity level consistent with the control of inflation represents his concept of "internal balance." Thus the target exchange rate, or what I have previously christened the "fundamental equilibrium exchange rate" (FEER), is the real effective exchange rate estimated to combine internal and external balance.

The nominal exchange rate targets corresponding to the agreed real targets would be regularly updated in the light of data on differential inflation between countries. The real targets could also be revised for good reason, such as evidence of superior productivity performance in the tradables sector (Balassa 1964), real shocks such as oil price changes or changes in underlying capital flows, or new information that causes revisions in estimates of likely payments outcomes. It is normally envisaged that exchange rates would be permitted to move within quite a wide zone, perhaps of as much as 10 percent above and below the target.

Several issues arise concerning the nature of the obligations that would fall upon participating countries when exchange rates threaten to breach the limits of the target zone. In the normal course of events, a participant would be expected to take policy actions intended to encourage a return of its exchange rate to well within its target zone. The most important instrument to be used for that purpose would be monetary policy, although this could usefully be reinforced and at times might even be replaced by the use of intervention. (It might also be attractive to use interest equalization taxes to influence the exchange rate if this were administratively feasible, but it is clearly not, at least among the major industrial countries that have already liberalized capital controls.)

One issue on which there is disagreement among the advocates of target zones is whether they should have "soft buffers", meaning that a participating country would not have an absolute

obligation to prevent its exchange rate moving outside the zone. Soft buffers might be useful under two types of circumstances. One is where it is uncertain whether a real change is going to create a need for a major change in the target zone in order to promote payments adjustment.^{1/} If the market perceives that such a change is likely before the authorities do, speculators might drive the rate to the edge of the target zone and would reap profits from any defense that the authorities mounted. The ability to allow the rate to move outside the zone, while the authorities deliberated on whether it would be appropriate to adjust the zone or to adjust policies to push the rate back into the zone, could avoid the danger of losing public money in defense of a disequilibrium rate.

A second circumstance where soft buffers would be useful arises where a country finds itself unable for political reasons to undertake an appropriate set of stabilization policies. The classic case concerns the US fiscal deficit of the mid-1980s. Defense of a target zone would have required the United States in 1983 to relax monetary policy. That might have endangered the assault on inflation without an offsetting tightening in fiscal policy. If the necessary fiscal steps had been precluded by political hang-ups, then the second-best outcome would have been to allow a temporary appreciation of the dollar above its target zone. The continued existence of the zone would nevertheless have warned the market of the authorities' judgment that the rate was excessively high and would ultimately need to depreciate, which might have headed off the speculative bubble that seems the only reasonable explanation of the heights to which the dollar rose from mid-1984 until the Plaza Agreement.

The counterargument against soft buffers is that they would undermine the market credibility of the commitment to target zones, and would thus prevent the zones providing a focus for stabilizing speculation.

Credibility is also important in another issue that has sometimes been disputed among advocates of target zones, namely, the question as to whether the zones should be published. The argument in favor of publication is that this will provide a focal point for expectations and guidance as to the policy intentions of the authorities, and will in this way help to make speculation more stabilizing. This clearly requires (a) that the zone encompass the equilibrium rate, and (b) that policies be adjusted in a way that will provide incentives to support official intentions (as would occur when interest rates were adjusted in response to exchange rate developments). Both requirements were violated under the Bretton Woods system, since the attempt to defend fixed nominal rates in the face of differential inflation meant that the authorities got locked in to defending disequilibrium rates, while the use of sterilized intervention as the main policy instrument to defend rates meant that the authorities supplied their opponents with more ammunition instead of raising their costs. Neither error need occur under the set of rules envisaged for a target zone system. Arguments that zones would "provide a target for speculators to aim at" seem to me to suppose that the authorities would make the same errors as they did under Bretton Woods despite the vastly easier task of avoiding them under a much looser system of target zones.

Note that a target zone system is considerably looser than the EMS exchange rate mechanism with respect to the automatic accommodation of differential inflation, the width of the zone, and the presence of soft buffers. With respect to the fourth dimension of exchange rate flexibility that offers serious social benefits, the ability to change the central rate to promote payments adjustment, the two systems are formally similar in that both permit such changes to be made by mutual consent. However, the narrow bands with hard margins place strict constraints on the degree to which this ability can be exploited within the EMS without provoking speculative crises that would jeopardise the system's continued existence. This ability will be further circumscribed in the future as capital controls are dismantled by France and Italy, and sterling joins the exchange rate mechanism, unless bands are widened somewhat.

The question has sometimes been raised as to how the burden of adjustment should be divided among countries when more than one reaches the limits of its target zone simultaneously. If the zones are indeed specified in terms of effective rather than bilateral rates, it would be possible to sidestep any explicit agreement on this question; any country near the limit of its target zone would be expected to act. This would preclude the United States playing the nth country role and leaving all policy adjustments to other countries. But it might be possible to improve the operation of a target zone system by selecting a rule for distributing the burden of adjustment in a way that would help stabilize the world conjuncture. Four possibilities come to mind.

persuaded by the Kaldor (1975) and Beckerman (1985) view that the primary determinant of world inflation has been changes in the relative prices of primary products. A policy of stabilizing those prices, provided it is at an appropriate level, might then help to avoid the danger of renewed inflation (as well as ameliorate the deflationary pressures currently being experienced by primary product exporters).

If the type of stabilizing actions embodied in such rules are judged desirable, it would be possible to supplement a target zone system by a rule to govern changes in the general level of interest rates among the participants. Suppose, for the sake of further argument, that nominal income targeting is judged to be the most satisfactory form of stabilization policy. Thus the participants might accept a (presumptive) rule that they would jointly raise interest rates if aggregate nominal income were tending to rise in excess of the target rate; and vice versa.^{2/} With such a systemic rule in place, it would seem entirely natural for all countries whose exchange rate approached the edges of their target zones to be expected to act. This would amount to assigning the average world interest rate to targeting aggregate nominal income, and assigning interest rate differentials to targeting exchange rates.

While such an assignment would help stabilize the cycle at the world level, it would not exclude the possibility of individual countries being expected to adjust their interest rates in a way that was inappropriate from the standpoint of domestic stabilization. The wide zone would of course leave a certain latitude for directing monetary policy to internal

objectives even when these require interest rates different to those in the rest of the world, but target zones would inevitably constrain the use of monetary policy for domestic purposes. Thus a target zone system would require that some other instrument be available to influence internal demand in order to limit deviations from the target growth of nominal income. In practice this means that fiscal policy would have to be used to manage domestic demand. This need not mean that fiscal policy be adjusted continuously ("fine tuning"); it does mean that a target zone system would require that countries be prepared to ensure that fiscal policy is broadly consistent with the agreed levels of competitiveness. In terms of assignment rules, fiscal policy would be assigned to pursuit of a target for national nominal income.

Target zones have been justified on the basis of two arguments. One is that they would serve to limit misalignments; obviously this argument tends to be most compelling to those who judge that major misalignments are costly. The second is that they would help to promote policy coordination. It is clear that they would tend to limit real interest rate differentials among countries, since it is these that drive exchange rates far from fundamental equilibrium levels. With the more complete assignment rules developed above, a target zone system would provide a fulcrum for coordination of monetary/fiscal policies among the major countries. This extended target zone system eschews strong dependence upon forecasting and the search for sophisticated optimality properties in favor of relatively straightforward, unoriginal, robust feedback rules.

I can imagine this approach being challenged by those with three sorts of reservations:

- objections to the authorities taking a view on desirable current account outcomes
- objections to "fine tuning"
- objections to the pursuit of a nominal income target.

Since the current account outcome is one component of the savings/investment balance, a view of the desirable current account balance is implicit or explicit in the plans of any government that endeavors to take a medium-term view of desirable macroeconomic outcomes. Few would deny the propriety of government taking a view on another component of the savings/investment balance, namely its own deficit. It is of course possible for government to confine its objectives to its own medium-term financial position, plus trying to ensure a constant rate of monetary growth; indeed, this has been the ostensible position of the Thatcher government. But one suspects that even in that case the government will become concerned when a substantial current account deficit develops (just as the Reagan Administration eventually became concerned over that to which it had previously professed indifference). Studied neglect of that which ultimately dictates concern cannot be benign.

It has become a platitude to dismiss fine tuning as a palpable error. There is an element of validity in this assessment; it is difficult to deny that in some cases the very

frequency of policy adjustments served to disrupt medium-run stability. Nevertheless, it still seems to me in retrospect (as I did at the time) that the overwhelming problem with demand management as practiced in the 1960s was not its inability to influence employment, output or inflation; nor the forecasting problem which meant that it occasionally operated perversely; but rather the refusal to recognize the medium-term implications of short-run policies. What this diagnosis suggests is not that short-run policy needs to be outlawed (the conventional wisdom of the early 1980s), but rather that short-run policy reactions should be guided by an explicit concern with medium-run sustainability.

The final possible objection concerns formulation of the domestic stabilization objective ("internal balance") in terms of the growth of nominal income. It indeed seems paradoxical to sum what is normally perceived to be a good (growth) with a bad (inflation) and then say that policy will be guided by the behavior of this sum. On the other hand, if one monitors the two separately, one would presumably expect a country to take deflationary actions if both growth and inflation were above target, reflationary actions if both were below target, and would lack a straightforward response if one was above and the other below target. The nominal income rule provides a simple rule of thumb for striking a balance, which has the important advantage of helping the public to understand that more inflation (including inflationary wage increases) means less growth, as ultimately it almost inevitably does.

A nominal income target need not, however, take the naive form of targeting a fixed rate of nominal income growth, as seems to be taken for granted much too readily by its advocates. In order to induce a gradual fall in inflation without compelling an unnecessarily severe recession, it seems natural to provide for a target rate of nominal income growth that includes some fraction of the inherited rate of inflation. Similarly, in order to limit the depth and duration of recession, it seems natural to include a term related to the size of the deflationary gap (i.e., the excess of the unemployment rate above the NAIRU)^{3/}. Both these terms would be added to the estimate of the rate of growth of productive potential to get the target rate of nominal income growth. Some simulation work under way with Hali Edison and Marcus Miller suggests that such a rule performs reasonably well in terms of reconciling a prompt convergence to noninflationary growth (starting from a position of inherited inflation) with the avoidance of cycles.

Indicators

Following a suggestion of the Group of 24 (1985, para 78) that was taken up by the Group of 10 (1986, para 4) and the Interim Committee (1986, para 6), the Tokyo summit went so far as to:

Reaffirm the understanding at the 1982 Versailles Summit to cooperate with the International Monetary Fund in strengthening multilateral surveillance, particularly among the countries whose currencies constitute the SDR,

and request that, in conducting such surveillance and in conjunction with the managing director of the I.M.F., their individual economic forecasts should be reviewed, taking into account indicators such as gross national product growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves and exchange rates;

Invite the finance ministers and central bankers in conducting multilateral surveillance to make their best efforts to reach an understanding on appropriate remedial measures whenever there are significant deviations from an intended course and recommend that remedial efforts focus first and foremost on underlying policy fundamentals, while reaffirming the 1983 Williamsburg commitment to intervene in exchange markets when to do so would be helpful. (Summit Communiqué 1986, para 7.)

Although the IMF has produced an internal report on indicators since the Tokyo summit and the G-5 countries (plus Canada and Italy?) have submitted some figures on the ten indicators named at Tokyo, the substance that might emerge from this initiative is still far from clear. It is therefore impossible to lay out a well-articulated "indicator proposal" that can be contrasted and compared to the target zone proposal. Rather, it is necessary to infer what is being developed and to discuss the potential role that indicators might

play. It follows that the present discussion may be superseded if and when others succeed in developing interpretations more in accord with official intentions or better able to advance the agreed aim of improved policy coordination.

The G-24 report spoke of a "set of outcomes or 'objective indicators' or 'targets'...", thereby suggesting that particular values of the variables chosen as indicators would become targets whose achievement would be monitored by the international community. The summit communiqué spoke of reviewing "economic objectives and forecasts...using the indicators specified below," which also suggests that objectives should be formulated for at least some of the indicators. The summit formulation leaves open the possibility, however, that some of the indicators might merely be forecasts, whose achievement would presumably not merit monitoring unless it were regarded as desirable as well as probable. It is worth remembering also that the previous use of indicators, in 1969-73 by the European Community, involved an expectation of remedial action if the indicator moved beyond a critical threshold away from some target value. Indeed, it is difficult to see what an indicator could indicate if it were not something desirable (or undesirable). Hence I take it for granted that what one is essentially discussing is the formation of agreed targets for critical economic variables, and not the provision of a summary record of economic history.

Both the discussion of the G-24 and the outline in the summit communiqué seem to envisage the quantitative specification of target values of the indicators playing two distinct roles. One is to examine the consistency of the policy intentions of the

major actors, and to induce countries to modify their policies with a view to ensuring consistency when the original intentions are mutually inconsistent. The other is to induce countries to modify their policies as evidence accumulates that initial policies are not producing the intended set of outcomes.

The advantages of a mechanism to ensure the mutual consistency of the policies pursued by the major countries arise from the fact that there are a series of constraints that confront the closed world economy that do not, by virtue of the scope that the system provides for international imbalances, confront each nation individually. For example, absorption may exceed or fall short of output in an open economy--but cannot do so for the world as a whole. An individual country may be able to decelerate inflation without much loss in real income (at least in the short run) by varying the fiscal-monetary mix so that its currency appreciates--but this is not an option in a closed system, such as the world. Any one country can choose an exchange rate target at will, but if $(n-1)$ do so, there is no degree of freedom for the n th country to choose its rate.

The consequences of a set of national policies that collectively fail to add up to a result consistent with a real global constraint are, it goes without saying, prone to be unfortunate. Inadequate world aggregate demand leads to world recession; an excess, to demand inflation. Generalized attempts to combat inflation by playing the fiscal-monetary mix lead to high interest rates, low investment, and low growth, not to a cut-price deceleration of inflation. Inconsistency in balance of payments objectives, either in the sense that reserve

accumulation ambitions do not sum to the increase in the global supply of reserves or in the sense that the sum of targeted current surpluses and deficits be different from zero, might provoke competitive payments policies--escalating trade restrictions, competitive devaluations or deflation, or an interest rate war. Inconsistent exchange rate targets could provoke competitive monetary expansion or contraction. Hence the intention of comparing the policies planned by the major countries with a view to ensuring their consistency with a satisfactory outcome for the global economy is much to be welcomed.

The second type of role that indicators might play is to help ensure that countries live up to their intentions. There are at least four distinct ways in which indicators might be employed to that end, involving very different degrees of automaticity of policy response:

- as a trigger for consultations
- as creating an obligation to adjust policies
- as creating a presumption that policies should be adjusted
- as triggering a penalty.

One possible approach is for the deviation of an indicator from its target value to be treated as a trigger to initiate consultations. The need for policy changes would then presumably be analyzed jointly by the group of participating nations, in

association with any international organization that might be chosen to provide secretariat facilities. Peer pressure, and perhaps public pressure, would be relied on to persuade countries to modify their policies in the direction that the analysis suggested to be called for. Some arrangement along these lines appears to have been envisaged by the participants in the Tokyo summit.

A much stronger system would involve deviations of the indicators triggering direct, prespecified policy changes. For example, a common European interpretation of the reserve indicator proposal advanced by the United States during the Committee of 20 negotiations in 1972-74 was that excessive reserve accumulation should automatically trigger a revaluation. This embodies a large element of "automaticity," a property of international monetary arrangements specifically commended by US Secretary of the Treasury James Baker (1986) at the meeting of the Interim Committee in April 1986.

An intermediate solution involves using indicators to create a presumption of the need for action. For example, the target zone approach envisages that the threat of an exchange rate breaking through the ceiling of its target zone would create a presumption of the need for a more expansionary monetary policy, but this might be overridden if the country were unable to secure a matching fiscal contraction and hence monetary expansion would threaten a revival of inflation. In that event the target zone's soft buffers would be called into play, and the rate allowed to appreciate temporarily out of its zone. More generally, a presumptive role for indicators would imply that a country would

be expected to take specified policy measures unless it could show good reason why they would be inappropriate.

A quite distinct approach would be to use the indicator to trigger some form of penalty, what used to be referred to as "sanctions" and have more recently been called "pressures", a term revived in the report of the Group of 24 (1985, paras 80-88). This implies that the indicator is being used to define a country's international responsibilities, or as what I have previously termed a "definitional indicator" (Williamson 1977, ch. 5), rather than as a "diagnostic indicator" as all three of the preceding approaches imply. How countries choose to react to the deviation of the indicator from its target value is their own decision, but the presumption is that their reactions will be influenced in the direction of international consistency by the recognition that they will incur a penalty of some type if they do not correct the deviation. This was certainly Keynes's assumption as to the implications of penalizing countries for excessive accumulation or shortfall of bancor holdings (Harrod 1951). It was also the US concept of how a reserve indicator system would work: countries with excessive reserve accumulation would have recognized that adjustment action was in their own national interest because otherwise they would have incurred interest penalties and forfeited the right to convert currency balances into primary reserve assets.

If indicators do no more than trigger consultations, there has to be doubt as to whether they will have much impact on the process of policy formulation. On the other hand, the world is too irregular and unpredictable a place for it to be likely that

countries would precommit themselves either to certain policy reactions or to accept penalties if certain outcomes deviate from those hoped for. Neither does that degree of automaticity seem to be desirable: policy needs to be able to react to unforeseen events. Hence the most attractive option appears to be the intermediate case, in which indicators are used in a presumptive role.

One important criterion for selecting indicators has often been assumed to be that they focus on the elements that need to be coordinated internationally because of interdependence (the "adding-up problem" or "consistency problem" which reflects the fact that the world has one less degree of freedom than the individual countries), and minimize intrusion in "domestic" policies. This criterion points to the selection of variables with an obvious international dimension, like reserves, current account balance of payments positions, and exchange rates. It is this consideration that has prompted the suggestion of using target zones as a fulcrum for securing policy coordination.

Another set of criteria relate to the availability and interpretability of quantified statistical measures. Ideally indicators would relate to variables that were measured promptly, accurately, unambiguously and in an internationally similar way. These criteria are perhaps particularly important for any indicators used as "intermediate variables" for regular monitoring of a country's situation, or for indicators that were to be used to trigger penalties.

In the light of the first criterion suggested above, the summit leaders endorsed consideration of a surprisingly long list

of indicators: GNP growth, inflation, the rate of interest, unemployment, the fiscal deficit, current account and trade balances, monetary growth rates, reserves, and the exchange rate.

Such an extensive list raises a problem that has not received attention in the past, because previous proposals for policy coordination were not as ambitious as that currently under consideration. This may be termed the "overdetermination problem." The term is suggested by the fact that the ten indicators proposed constitute a vastly overdetermined system. Only by improbably good forecasting or by incredibly good luck will the planned policies embodied in some of the forecasts result in the planned outcomes expressed in others.

The danger inherent in an overdetermined set of indicators is that the signals emitted will be too ambiguous to provide much help in inducing countries to modify their policies. When one indicator flashes a warning that (say) monetary policy is too tight, it will usually be possible to find two others which can be interpreted as indicating that it is too loose, and as a result policymakers will be able to go on doing as they please regardless of the indicators.

A possible solution to this danger of emasculating the signals that an indicator system should give by overdetermining the set of indicators is to structure them, so that some indicators can over-ride others. There is in fact a second and perhaps even more powerful reason for seeking to structure the indicators. This is to help politicians reach agreement on concrete policy questions by confronting them first with more

abstract issues on which they are more likely to be able to agree. It seems somewhat unlikely that a bald request to produce targets for the 10 variables named by the summit communiqué would bring forth consistent answers, or even that subsequent horse-trading in the G-5 or G-7 would be able to reconcile the differences unless there were prior agreement on some principles or standards. Recent disagreements about the desirable point at which to brake the dollar's decline, and the need for Germany and Japan to expand internal demand, provide vivid illustrations of how difficult it is to agree on concrete issues without some guidance from commonly accepted standards. The structuring of the indicators should aim to provide an agreed framework from which technical analysis can start, and hopefully lay a basis for agreement on concrete policy actions.

A natural approach to this would be to subdivide indicators into the following categories:

(a) Policy Targets. Rapid growth, high employment, and low inflation are clearly objectives of economic policy. Although the balance of payments on current account should be treated as a means rather than an end from a sufficiently long-run standpoint, in medium and short-run policy discussions it is usual to treat the current account outcome as an objective.

(b) Policy Instruments. Fiscal and monetary policy are instruments of policy rather than targets.

(c) Intermediate Targets. It is sometimes helpful to focus policies on achieving certain outcomes that have no normative significance in themselves, but whose values are important to achieving the "ultimate" targets like high growth, low inflation

and a satisfactory balance of payments. Of the ten indicators endorsed by the Tokyo summit, the exchange rate provides the most natural candidate for treatment as an intermediate target.

(d) Longstops. Finally, there are certain variables that should within wide limits be allowed to fluctuate as residuals, to provide the system with the flexibility that it needs in order to accommodate unexpected shocks. The best example in the summit list is provided by the level of reserves: there is no point in holding reserves at all unless their level is to be allowed to fluctuate over time, in a way that will mitigate the transmission to the level of income of shocks to the balance of payments. Nevertheless, either reserve depletion or undue reserve accumulation is a signal that something is wrong with the way that policy has been set, and should prompt an adjustment of the balance of payments target in order to restore reserves over time to a more normal level. The other example of a longstop in the summit list is monetary growth or the level of interest rates, whichever is not used as the monetary instrument. In countries that target interest rates (monetary growth), monetary growth (interest rates) needs to be allowed to fluctuate as a residual-- but excessively high monetary growth or interest rates (or negative monetary growth or real interest rates) is nevertheless a signal that something is amiss with the overall setting of policy.

Thus the suggested classification of the summit indicators is as follows: