

**IMMEDIATE
ATTENTION**

EBD/06/149

December 21, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Report on Delayed Completion of Article IV Consultations and Extension of Approval of Exchange Measures, and Outstanding 2006 Article XIV Consultations**

Following is the monthly report for December 2006 notifying Executive Directors of delays in completing Article IV consultations beyond the cycles specified, including applicable grace periods.

The report includes a proposed decision for two countries on an extension beyond three months of the period between the staff's conclusion of the Article IV consultation discussions and the Executive Board's completion of the consultation. The proposed decision appears on page 6.

Also included is a proposed decision to extend, for one country, Executive Board approval of exchange measures under Article VIII, Sections 2(a) and 3. The proposed decision appears on page 7.

In accordance with the procedure for the implementation of surveillance, as endorsed by Directors at the time of the 1997 biennial surveillance review (SUR/97/38, 4/3/97), this report also contains a section on 2006 Article XIV consultations with three member countries. The proposed decision appears on page 8.

In the absence of an objection by **noon on Friday, December 29, 2006**, the proposed decisions will be deemed approved by the Executive Board, and will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Demir, PDR (ext. 38378).

Other Distribution:
Department Heads

Delayed completion of Article IV consultations

Tables 1 and 2 list member countries for which the period for the completion of the next Article IV consultation has exceeded, or is likely to exceed, the applicable consultation cycle.¹ Member countries added to the list for December 2006, or for which a notification of further delay beyond the month of December 2006 has become necessary, are highlighted in bold. These countries are **Côte d'Ivoire** (expected delay 20 months), **Kenya** (11 months), **Republic of Congo** (9 months), and **Paraguay** (8 months) as regards countries with a Fund arrangement; and **Djibouti** (5 months), **Thailand** (3 months), **Zimbabwe** (3 months), **Sweden** (2 months), and **Mongolia** (1 month) as regards other countries.

¹ The applicable consultation cycle is: (i) for countries where a Fund arrangement was approved since the last Article IV consultation, the cycle stipulated by the July 15, 2002 decision on consultation cycles as amended; (ii) for other countries, the cycle specified at the time of the last consultation, including the 3-month grace period where applicable. Paragraph 3 of the July 15, 2002 decision on Article IV consultation cycles for program countries applies to countries for which an Article IV consultation has not been concluded since the expiration of the last Fund arrangement.

Table 1. Delays in Completion of Article IV Consultations in Countries With a Fund Arrangement 1/

Member	Board Date of Last Consultation		Stipulated Date for Completion of Next Consultation	Date by which Next Consultation is Expected to be Completed	Reason for Delay or Further Delay	Expected Delay in Completion of Consultation (in months) 2/
Côte d'Ivoire**	3/31/04		9/28/05	May 2007	Security situation	20
Turkey**	7/30/04	*	11/11/05	February 2007	Other-1	16
Malawi**	10/29/04	*	2/5/06	January 2007	Other-2	12
Kenya**	12/20/04	*	3/20/06	February 2007	Combination with UFR	11
Peru**	2/23/04	*	2/23/06	January 2007	Government change	11
Congo, Rep. of**	6/10/04	*	6/10/06	February 2007	Other-3	9
Grenada	7/13/05	*	10/17/06	June 2007	Combination with UFR	8
Paraguay**	7/30/04	*	5/30/06	January 2007	Other-4	8
Croatia	8/4/04	*	8/4/06	February 2007	Staff constraints	7
Tanzania	8/6/04	*	8/6/06	February 2007	Other-5	7
Tajikistan	3/18/05	*	8/10/06	January 2007	Combination with UFR	6
Congo, Dem. Rep. of	8/29/05	*	11/29/06	April 2007	Government change	5
Rwanda	10/6/04	*	10/6/06	January 2007	Combination with UFR	4
Honduras	3/28/05	*	10/15/06	January 2007	Other-6	3
Senegal	3/7/05	*	10/27/06	January 2007	Other-7	3

Source: Policy Development and Review Department.

1/ Includes countries for which an Article IV consultation has not been concluded since the expiration of the last Fund arrangement. Paragraph 3 of the July 15, 2002 decision on Article IV consultation cycles for program countries applies to these countries.

2/ If the stipulated date for completion of the consultation falls in the first half of a given month, the calculation of the expected delay includes this month.

Reasons for delay:

Combination with UFR: Delayed in order to combine the consultation with a request for the use of Fund resources, or with a program review.

Further discussions: Delayed due to further discussions on Article IV consultation issues.

Security situation: Postponed or delayed due to the unsettled political or security situation.

Government change: Delayed due to forthcoming or recent elections, change of government, or changes within government.

Staff constraints: Delayed due to staff constraints.

Authorities' request: Delayed at the request of authorities.

Scheduling conflicts: Delayed due to scheduling conflicts.

Other-1: Delayed due to work on program review and to combine with the FSAP discussion.

Other-2: Delayed due to the scheduling problems of the HIPC completion point Board meeting.

Other-3: Delayed due to work on PRGF supported program.

Other-4: Delayed due to authorities' request to postpone the mission because of municipal elections.

Other-5: Delayed in order to coordinate with other members of the East African region.

Other-6: Delayed due to ongoing work on program review.

Other-7: Delayed due to continuing work on a possible new PRGF.

* The Executive Board has had a subsequent opportunity to discuss developments in this country on the basis of a report on the use of Fund resources, or a report on overdue financial obligations to the Fund, or on the basis of a staff briefing on recent developments.

** Countries for which multiple notifications of delay have been issued to the Executive Board.

Table 2. Delays in Completion of Article IV Consultations in Countries Without a Fund Arrangement

Member	Board Date of Last Consultation	Stipulated Date for Completion of Next Consultation 1/	Date by which Next Consultation is Expected to be Completed	Reason for Delay or Further Delay	Expected Delay in Completion of Consultation (in months) 2/ 3/
Somalia	11/13/89 *	11/13/90	Postponed	Security situation	...
Venezuela	9/13/04	9/13/05	Postponed	Authorities' request	...
Haiti	5/16/05 *	5/16/06	May 2007	Combination with UFR	9
San Marino	7/28/04	7/28/06	March 2007	Government change/ Staff constraints	8
Uzbekistan	5/16/05	5/16/06	March 2007	Government change	7
Fiji	8/23/04	8/23/06	February 2007	Government change/ Staff constraints	6
Austria	7/20/05	7/20/06	March 2007	Government change	5
Djibouti	9/28/05	9/28/06	May 2007	Other-1	5
Guatemala**	5/16/05	5/16/06	January 2007	Further discussions	5
Czech Republic	8/1/05	8/1/06	February 2007	Government change	4
Timor Leste	6/15/05	6/15/06	January 2007	Security situation	4
St. Vincent & the Grenadines	7/13/05	7/13/06	January 2007	Other-2	4
Thailand	9/7/05	9/7/06	February 2007	Government change	3
Zimbabwe	9/9/05 *	9/9/06	February 2007	Other-3	3
Sweden	9/7/05	9/7/06	January 2007	Government change	2
Mongolia	9/21/05	9/21/06	January 2007	Scheduling conflicts	1

Source: Policy Development and Review Department.

1/ Excluding three month grace period, where applicable.

2/ Beyond the three month grace period, where applicable.

3/ If the stipulated date for completion of the consultation falls in the first half of the month, the calculation of the expected delay includes this month.

Reasons for delay:

Combination with UFR: Delayed in order to combine the consultation with a request for the use of Fund resources.

Further discussions: Delayed due to further discussions on Article IV consultation issues.

Security situation: Postponed or delayed due to the unsettled political or security situation.

Government change: Delayed due to forthcoming or recent elections, change of government, or changes within government.

Staff constraints: Delayed due to staff constraints.

Authorities' request: Delayed at the request of authorities.

Scheduling conflicts: Delayed due to scheduling conflicts.

Other-1: Delayed due to the authorities' request to postpone the mission because of the COMESA meetings in the country.

Other-2: Delayed in order to align surveillance with other members of the ECCU.

Other-3: Delayed due to the authorities' request to postpone the mission.

* The Executive Board has had a subsequent opportunity to discuss developments in this country on the basis of a report on the use of Fund resources, or a report on overdue financial obligations to the Fund, or on the basis of a staff briefing on recent developments.

** Countries for which multiple notifications of delay have been issued to the Executive Board.

The completion of the Article IV consultation with **Kenya** is further delayed. This delay is attributable to continuing discussions on the second review under the PRGF arrangement, which has now been extended to February 28, 2007 to allow time to complete the second review. It is expected that the Executive Board consideration of the Article IV consultation, and the second review under the PRGF arrangement will take place in February 2007.

The conclusion of the Article IV consultation with the **Republic of Congo** is further delayed due to large fiscal slippages under the PRGF supported arrangement. The staff expects the Article IV consultation to be completed in February 2007.

The completion of the Article IV consultation with **Zimbabwe** is being delayed because of the authorities' request to postpone the consultation mission until December. It is now expected that the consultation will be completed in February 2007.

Extension of period for Board consideration of Article IV consultations

Under the procedures for surveillance, the three-month period from the termination of the Article IV consultation discussions with the authorities to the Executive Board conclusion of the consultation has ended, or will end, for the countries below on the date specified. Therefore, it is necessary to request a new deadline for completion of the consultations. The principal reasons for the requests are indicated in the footnotes below.

Member	Date of Conclusion of Staff Discussions	Deadline for Completion	Proposed New Deadline for Completion
Antigua and Barbuda	9/12/06	12/12/06	1/31/07 1/
Mongolia	9/12/06	12/12/06	1/31/07 2/

Source: Policy Development and Review Department.

Note: The recent decision reducing the three month period to 65 days for non-PRGF eligible members (Decision No. 13815-(06/98, adopted November 15, 2006) only applies to Article IV consultation missions that conclude more than 45 days after the date on which the decision was adopted.

1/ Extension requested in order to align the surveillance with other members of the ECCU.

2/ Extension requested due to Board scheduling conflicts.

Accordingly, the following draft decision is proposed for adoption by the Executive Board

Proposed Decision

“Notwithstanding the period of three months specified in Procedure II of the document entitled “Surveillance Over Exchange Rate Policies,” attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board decides that the period for completing the next Article IV consultation with Antigua and Barbuda, and Mongolia shall be until the respective date indicated in EBD/06/149 for such country.”

Extension of approval of exchange measures subject to Article VIII

The former Yugoslav Republic of Macedonia (FYRM) maintains an exchange restriction subject to the Fund’s approval under Article VIII, Section 2(a) arising in connection with the freezing in 1993 of foreign-currency deposits. The restriction was imposed for balance of payments reasons, and is non-discriminatory. In 2002, the authorities fixed a timetable for eliminating the restriction by end-April 2006, and the Fund granted approval for the retention of the restriction until April 30, 2006.

In April 2006, the authorities requested further approval for the retention of the restriction, and the Fund granted approval for its retention until December 31, 2006. The authorities now request further approval for the retention of the restriction until December 31, 2007 to allow for both the issuance of a public announcement that will set out the process by which the exchange restriction will be eliminated, and the completion of that process.

Proposed Decision

- “1. The Former Yugoslav Republic of Macedonia maintains an exchange restriction subject to Fund approval under Article VIII, section 2(a) arising from the restrictions imposed on the transferability of proceeds from current international transactions contained in the former frozen foreign currency savings deposits.
2. In the circumstances of the Former Yugoslav Republic of Macedonia, the Fund grants approval of the retention of this exchange restriction until December 31, 2007.”

Article XIV consultations

According to Article XIV, Section 3, members maintaining restrictions under the transitional arrangements of Article XIV are required to consult annually with the Fund regarding their retention. Normally, these consultations are held in the context of consultations under Article IV. There are, however, three countries that have not yet concluded the required annual Article XIV consultations this year: **Bhutan, Iraq, and Somalia.**

Although Iraq continues to avail itself of the transitional arrangements under Article XIV, it is not clear whether Iraq still maintains any restrictions. Additional information on Iraq's foreign exchange laws, regulations and practices is being sought to determine whether Iraq maintains any exchange restrictions subject to Fund jurisdiction. The last Article IV consultation was concluded on August 1, 2005. In the case of Somalia, the ongoing political and security problems and the absence of official counterparts prevented the required consultation.

Bhutan maintains (i) exchange restrictions on the availability of foreign exchange for travel, other invisibles, and private transfers; (ii) exchange restriction arising from foreign exchange balancing requirements on remittances of income connected with foreign direct investment; and (iii) restrictions on the availability of foreign exchange for importers who have not provided evidence that goods for which payments have been made were actually imported. Bhutan also maintains an exchange restriction subject to Fund approval under Article VIII, Section 2(a), arising from regulations that require foreign exchange balancing for certain imports. In addition, Bhutan maintains certain security-related restrictions that have been notified to the Fund under Decision No. 144-(52/51), adopted August 14, 1952.

In concluding the 2005 Article XIV Consultation with Bhutan, the Fund encouraged Bhutan to eliminate the restrictions maintained under Article XIV as soon as its balance of payments position permits and urged Bhutan to eliminate the exchange restrictions subject to approval under Article VIII as soon as possible (Decision No. 13527-(05/60), adopted July 11, 2005).

At the request of the authorities, LEG and MCM have continued to provide technical assistance on Bhutan's foreign exchange regulations in 2006. Staff recommended (i) replacing the restrictions on the availability of foreign exchange for importers who have not provided proof of prior imports with a monetary fine for delayed provision of the documents; (ii) eliminating the restriction on the availability of foreign exchange for travel, other invisibles and private transfers; and (iii) addressing the restrictions arising from the foreign exchange balancing requirements in light of developments in Bhutan's reserves and balance of payments position. However, the authorities indicated that they did not anticipate that Bhutan would be able to eliminate most of these exchange restrictions in the near future because of the likely persistence of structural problems in the economy, but would keep the situation under review. The authorities also indicated their intention to adopt new foreign exchange laws and regulations, following an inter-governmental review of the draft Foreign Exchange Regulations, Rules and Procedures provided by staff.

The next Article IV and Article XIV discussions are expected to take place in July 2007.

Proposed Decision

1. The Fund takes this decision in concluding the 2006 Article XIV consultation with Bhutan.
2. Bhutan continues to maintain restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2, as described in EBD/06/149. The Fund encourages Bhutan to eliminate the measures maintained under Article XIV as soon as its balance of payments position permits, and urges Bhutan to eliminate the exchange restriction that is subject to approval under Article VIII as soon as possible.