

**IMMEDIATE
ATTENTION**

EBD/10/42

June 22, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Report on Delayed Article IV Consultations and Request for Extension of Approval of Exchange Measures**

Attached for consideration by the Executive Directors is the report for the second quarter of 2010 on delayed Article IV consultations and request for extension of approval of exchange measures.

In the absence of an objection by **noon on Tuesday, June 29, 2010**, the proposed decision on page 8 will be deemed approved by the Executive Board, and will be so recorded in the minutes of the next meeting thereafter.

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Konuki (ext. 38085) and Mr. Cogliardi (ext. 37568) in SPR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

**Report on Delayed Article IV Consultations and Request for Extension of Approval of
Exchange Measures**

Prepared by the Strategy, Policy, and Review Department
In consultation with the Legal, Secretary's, and Area Departments

Approved by Reza Moghadam

June 21, 2010

I. OVERVIEW

1. This report monitors the delays in the conclusion of Article IV consultations with member countries (Section II), and the time lag between the conclusions of staff discussions with the authorities and Board conclusion of the consultation (Section III). The key observations on the delays and time lags are as follows:

- The number of delayed Article IV consultations decreased slightly in the second quarter of 2010 relative to the first quarter (Table 1 and Figure 1). Ten countries dropped from the list, while eight were added bringing the total to 28. The overall average delay increased moderately, but remained unchanged when the three long-delayed countries: Argentina, Somalia, and Venezuela are excluded.
- In the second quarter of 2010, the average lag between the end of staff discussions and Board conclusion of Article IV consultations was below the Board established expectations for both PRGT-eligible members and others. The average lag increased for PRGT-eligible members but decreased for others compared to the previous quarter.

2. Staff also proposes a further approval of the retention of an exchange restriction subject to approval under Article VIII, Section 2 for the Republic of Latvia (Section IV).

Table 1. Delays in Completion of Article IV Consultations in Member Countries 1/

Member	Board Date of Last Consultation	Stipulated Date for Completion of Next Consultation 2/	Consultation is Expected	Main Reason for Delay or Further Delay 3/	Delay in Completion of Consultation (in months) 4/
Somalia†*	11/13/1989	11/13/1990	...	Political and security situation	233
Venezuela*	9/13/2004	9/13/2005	...	No agreement on date	55
Argentina*	7/28/2006	7/28/2007	...	No agreement on date	32
Turkey†*	5/18/2007	11/10/2008	July 2010	Program-related issues	20
Ecuador*	1/25/2008	1/25/2009	...	No agreement on date	14
Uzbekistan*	7/14/2008	7/14/2009	August 2010	Authorities' request	9
Aruba*	2/8/2008	2/8/2010	November 2010	Authorities' request	5
Trinidad & Tobago	1/14/2009	1/14/2010	January 2011	Government Change	3
Namibia	2/27/2009	2/27/2010	July 2010	Government Change	1
Spain	3/11/2009	3/11/2010	July 2010	Staffing constraints	1
Vietnam	3/16/2009	3/16/2010	July 2010	Authorities' request	1
Countries With a Fund Arrangement or a Policy Support Instrument 5/					
Nicaragua†*	1/18/2006	1/18/2008	July 2010	Program-related issues	29
Latvia, Rep. off†*	10/4/2006	10/4/2008	July 2010	Program-related issues	21
Madagascar†*	6/25/2007	4/30/2009	...	Political and security situation	14
Guinea†*	12/21/2007	6/30/2009	...	Political and security situation	12
Haiti†*	7/23/2007	7/23/2009	July 2010	Misc	11
São Tomé and Príncipe, Dem. Rep. off†*	6/18/2008	9/18/2009	July 2010	Program-related issues	9
Moldova†*	3/12/2008	11/4/2009	July 2010	Authorities' request	8
Afghanistan†*	2/13/2008	12/25/2009	August 2010	Political and security situation	6
Bosnia & Herzegovina†*	9/17/2008	1/1/2010	September 2010	Program-related issues	6
Sri Lanka†*	10/17/2008	1/24/2010	September 2010	Program-related issues	5
El Salvador†*	11/12/2008	2/12/2010	September 2010	Program-related issues	5
Comoros†*	12/15/2008	12/15/2009	December 2010	Program-related issues	4
Djibouti†*	9/17/2008	3/30/2010	December 2010	Program-related issues	3
Ukraine†	6/2/2008	5/15/2010	December 2010	Program-related issues	2
Mali†	5/28/2008	5/28/2010	July 2010	Program-related issues	1
Angola†	3/27/2009	6/27/2010	December 2010	Program-related issues	1
Cape Verde†	6/30/2008	6/30/2010	December 2010	Staffing constraints	1

Source: Strategy, Policy, and Review Department.

1/ The status and classification of countries are as of June 31, 2010. Bolded entries are countries that have become delayed and hence are new to the table and countries that have or are expected to become further delayed because their consultations were not or are not likely to be completed by the expected date indicated in the March 2010 report (EBD/10/15).

2/ Excluding three-month grace period, where applicable, for member countries without a Fund arrangement or PSI.

3/ Reasons for delay are explained in Box 1 of this report.

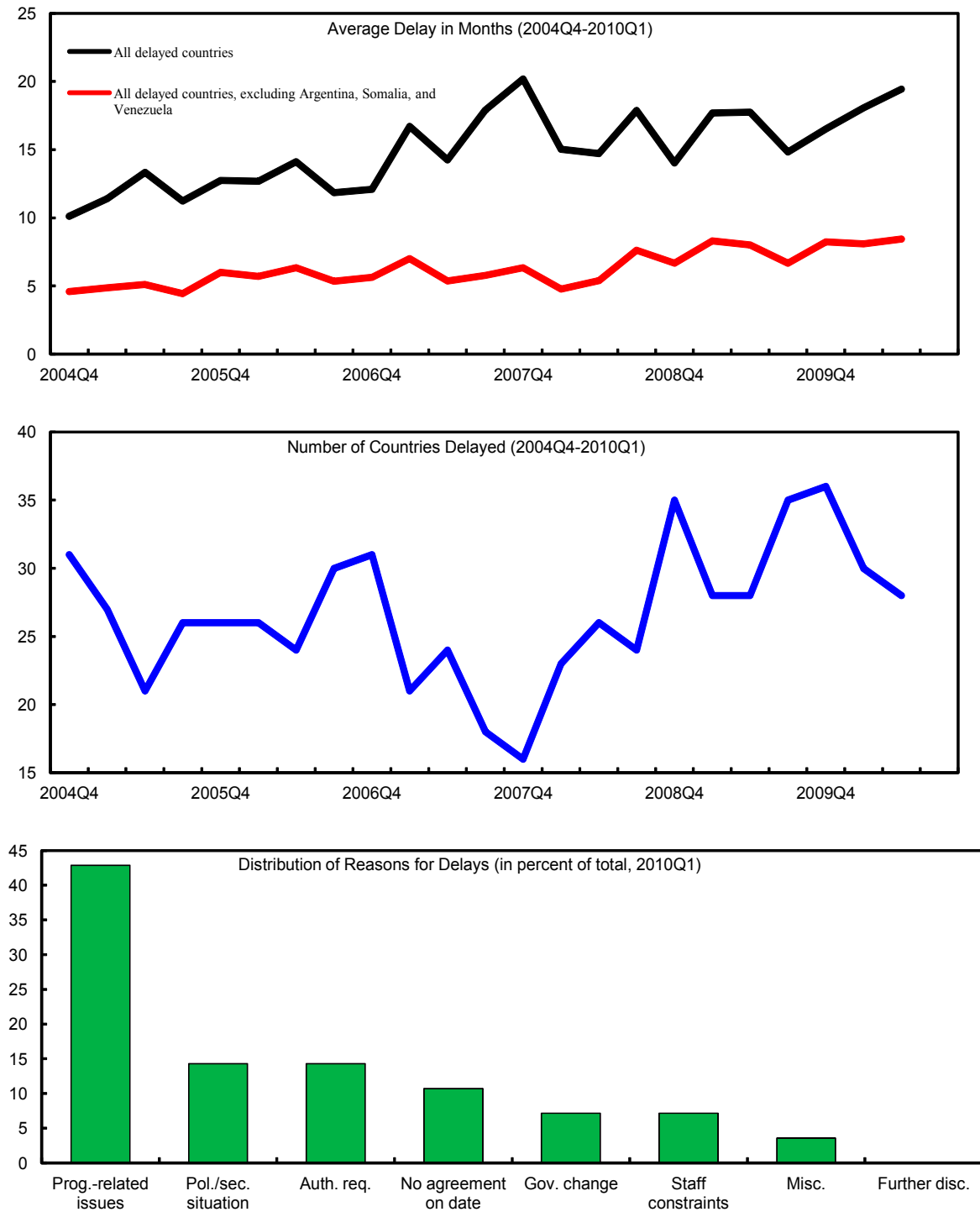
4/ The delay measures the lag between the stipulated date of completion of the next Article IV consultation plus the three-month grace period, where applicable, and end-June 2010. If the stipulated date for completion of the consultation falls in the first half of a given month, the calculation of the delay includes this month.

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

† 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 on overdue financial obligations to the Fund.

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

Figure 1. Selected Article IV Consultation Delay Indicators



Sources: Area Departments and Strategy, Policy, and Review Department databases.

II. REASONS FOR DELAYS IN ARTICLE IV CONSULTATIONS

Program-related work was the dominant reason for delaying Article IV consultations during this quarter, followed by political/security situation and the authorities' request. The longest delays are still associated with three countries (Somalia, Argentina, and Venezuela) where the Article IV consultations remain indefinitely delayed (Table 1 and Figure 1).¹ This section discusses countries that have been added to Table 1 and countries whose consultations were delayed further compared to what was indicated in the March 2010 report (bolded entries in Table 1) as well as countries where there is no agreement on date. Box 1 elaborates on the main reasons for delays.

3. **No agreement on date.** Despite continued attempts by staff to conduct Article IV consultation discussions with *Argentina* and *Venezuela*, neither of the countries' authorities has yet agreed on a mission date. Similarly, the consultation with *Ecuador* has not taken place because the authorities have not agreed on a mission date.

4. **Program-related delays.** Demand for Fund arrangements remains high and is contributing to the high number of delayed consultations due to program discussions or efforts to combine Article IV consultation discussions with program request/review missions. For *Nicaragua*, prolonged discussions on the fourth review under the Extended Credit Facility (ECF) further delayed the consultation, but a Board meeting for stand-alone Article IV consultation is now scheduled for July 2010. For *the Republic of Latvia*, delays in completing the third review under the Stand-By Arrangement (SBA) further delayed the consultation, but a Board meeting for both the Article IV consultation and the third review is scheduled for July. For *Bosnia and Herzegovina*, protracted discussions on the second review under the SBA further delayed the consultation, but a Board meeting for both the Article IV consultation and the second review is planned for September. For *Comoros*, urgent HIPC and first ECF review works have delayed the consultation, but a combined mission for the Article IV consultation and the second ECF review is scheduled for September with an expected Board meeting in December. For *Djibouti*, delays in completing the second and third reviews under the ECF further delayed the consultation, but a combined mission for the Article IV consultation and the second and third reviews is scheduled for October/November with an expected Board meeting in December. For *Ukraine*, ongoing discussions on a new SBA delayed the Article IV consultation, but a mission for the Article IV consultation is scheduled for November with a Board meeting in December. For *Mali*, protracted discussions for the fourth review under the ECF delayed the Article IV consultation, but a Board meeting for

¹ Countries listed in Table 1 fall into four categories: (i) countries that are indefinitely delayed; (ii) countries whose status since the March 2010 report has remained broadly unchanged; (iii) countries that have become delayed and hence are new in the table; and (iv) countries that have or are expected to become further delayed because their consultations were not or are not likely to be completed by the expected date indicated in the March 2010 report. Countries in categories (iii) and (iv) are highlighted in bold.

both the Article IV consultation and the fourth review is scheduled for July. For *Angola*, delays in completing the first and the second reviews under the SBA delayed the consultation, but a combined mission for the Article IV consultation and the fourth review is scheduled for October/November with an expected Board meeting in December.

5. **Government change/elections.** An early election in *Trinidad and Tobago* led to a further delay in the Article IV mission, which is tentatively planned for October with a Board meeting in January 2011.² For *Namibia*, a change in the government following the general elections caused a delay in the Article IV mission, which took place in May with a Board meeting scheduled in July.

6. **Staffing constraints.** Due to staffing constraints, *Spain* was recently added to the list of delayed Article IV consultations. Staff expects a Board meeting for the Article IV consultation in July. Staff constraints delayed the completion of the Article IV consultation with *Cape Verde*. Staff expects a combined mission for the Article IV consultation and a new PSI in September with a Board meeting in December.

7. **Other reasons.** The authorities in *Vietnam* requested a delay in the Article IV mission because it hosted the ASEAN meetings. The mission took place in May and a Board meeting is scheduled in July. Continued security concerns in *Afghanistan* have led to a further delay in the Article IV consultation, but a Board meeting is scheduled in August.

² The mission was initially delayed from a tentative mission dates in January 2010 on account of staffing constraints.

Box 1. Reasons for Delays of Article IV Consultations

Article IV consultations are delayed for a variety of reasons. For the purpose of monitoring delays, staff has grouped the reasons into the following categories, though it should be recognized that a delay may have more than one reason.

- **Program-related issues:** Delayed (i) in order to combine the consultation with a request for use of Fund resources (UFR) or Policy Support Instrument (PSI), or program review; or (ii) due to ongoing discussions on UFR or PSI, or continued work on program review.
- **Further discussions:** Delayed due to further discussions with the authorities on economic developments and policies.
- **Political/security situation:** Delayed due to the unsettled political and/or security situation.
- **Government change:** Delayed due to forthcoming or recent elections, change of government, or changes within government.
- **Staffing constraints.**
- **Authorities' request.**
- **No agreement on date:** The authorities have not communicated a date for the Article IV consultation mission.
- **Miscellaneous:** Includes reasons not accommodated above.

III. LAG BETWEEN END OF STAFF DISCUSSION AND BOARD COMPLETION OF ARTICLE IV CONSULTATIONS

8. It is expected that no later than 65 days after the termination of discussions between the member and the staff, the Executive Board will conclude the Article IV consultation, except in the case of PRGT-eligible members, for which the lag is expected to be no more than three months.³

- The average lag for PRGT-eligible members was 73 days during this quarter. Although this implies an increase from the previous quarter (63 days), it was well within the expectation of three months (Table 2).
- For the rest of the membership, the average lag was 58 days. This implies a decline from the previous quarter (67 days) and is below the 65-day expectation.

³ The Board converted the legal deadline to conclude Article IV consultations into an expectation in August 2009 with a view to eliminating the processing of requests for extension of this deadline (SM/09/213, Supplement 3). This section of the report aims to keep the Board informed of the speed with which Article IV reports are presented to the Board.

**Table 2. Lag between End of Staff Discussions with the Authorities and Board Completion of Article IV Consultations
(April – June 2010)**

		Discussion		Lag ^{2/}	Delay ^{3/}
	Country Name	End Date	Board Date ^{1/}		
PRGT eligible members	Tonga	3/30/2010	5/6/2010	37	-
	Benin	4/26/2010	6/14/2010	49	-
	Chad	4/27/2010	6/16/2010	50	-
	Senegal	3/25/2010	5/24/2010	60	-
	Samoa	3/5/2010	5/17/2010	73	-
	Ethiopia	3/24/2010	6/11/2010	79	-
	Nepal	3/8/2010	5/28/2010	81	-
	Papua New Guinea	2/22/2010	5/19/2010	86	-
	Sudan	3/29/2010	6/23/2010	86	-
	Guinea-Bissau	1/26/2010	5/7/2010	101	11
	Dominica	1/28/2010	5/10/2010	102	12
Average				73	
Others	Peru	3/12/2010	4/14/2010	33	-
	Luxembourg	4/19/2010	5/28/2010	39	-
	Croatia	5/10/2010	6/21/2010	42	-
	New Zealand	3/30/2010	5/12/2010	43	-
	Equatorial Guinea	3/10/2010	4/23/2010	44	-
	Paraguay	4/20/2010	6/4/2010	45	-
	Romania*	5/10/2010	6/28/2010	49	-
	Switzerland	3/23/2010	5/14/2010	52	-
	Poland	3/15/2010	5/7/2010	53	-
	Italy	3/30/2010	5/26/2010	57	-
	Azerbaijan	3/3/2010	5/3/2010	61	-
	Zimbabwe	3/17/2010	5/17/2010	61	-
	Bulgaria	3/1/2010	5/3/2010	63	-
	Palau	2/23/2010	4/28/2010	64	-
	Albania	3/9/2010	5/24/2010	76	11
	Brunei Darussalam	2/13/2010	5/5/2010	81	16
	Montenegro, Rep. Of	2/2/2010	4/28/2010	85	20
	Antigua & Barbuda	3/12/2010	6/7/2010	87	22
Average				58	

Source: Strategy, Policy, and Review Department.

1/ Actual date of Executive Board consideration (including on lapse of time) of the consultation during April-June, 2010.

2/ Measures the period (in days) between the end of discussions with the authorities and the date of the completion of the consultation with the Executive Board.

3/ Measures the time elapsed beyond the expected applicable period for completion of the consultation and the actual Executive Board date. If the deadline of the three-month/65 day expectation falls during the Board recess, the Friday of the week immediately following such a period would be regarded as the applicable deadline.

* As of the time this paper is issued, the Board meeting for Romania is scheduled on 6/28/2010.

IV. EXCHANGE RESTRICTIONS UNDER ARTICLE VIII

9. The Republic of Latvia maintains an exchange restriction subject to Fund approval under Article VIII, Section 2(a) arising from a partial deposit freeze on Parex Bank. On December 1, 2008, the Latvian authorities imposed a partial deposit freeze on Parex Bank to prevent an excessive outflow of deposits from the bank that would have undermined its stability and solvency, and threatened the stability of the Latvian financial sector. The retention of the exchange restriction arising from the partial deposit freeze had been approved by the Executive Board through June 30, 2010 or the conclusion of the next Article IV consultation with the Republic of Latvia, whichever is earlier (Decision No. 14469-09/118), adopted November 24, 2009).

10. While Parex Bank's financial position has remained stable, it has not improved sufficiently to allow for a removal of the restriction. In addition, the authorities have begun the process of restructuring the bank, which should facilitate the removal of the restriction once complete, but may heighten risks while the restructuring is in process. Accordingly, on June 11, 2010, the authorities decided to extend the exchange measure to end-December 2010 and have requested Board approval of the retention of this measure for balance of payment reasons until December 31, 2010. The restriction remains unchanged except that the requirement that the bank should agree on transactions with the Financial and Capital Market Commission's authorized representative has been eliminated to ease administrative burdens. Also, the authorities have indicated that they will remove the restriction before the end of the year if Parex Bank's financial stability improves more quickly.

11. Since the exchange restriction is nondiscriminatory, and the authorities have proposed a timetable for its removal, the staff recommends Executive Board approval for its further retention until December 31, 2010.

PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The Republic of Latvia maintains an exchange restriction arising from the imposition by the government of a partial deposit freeze on Parex Bank subject to Fund approval under Article VIII, Section 2(a).

2. In the circumstances of the Republic of Latvia, the Fund grants approval for the retention of the exchange restriction until December 31, 2010.