

**IMMEDIATE
ATTENTION**

EBD/11/16

March 25, 2011

To: Members of the Executive Board

From: The Acting 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 first quarter of 2011 on delayed Article IV consultations and request for extension of approval of exchange measures.

In the absence of an objection by **noon on Friday, April 1, 2011**, the proposed decisions on pages 9 and 10 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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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

March 25, 2011

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 conclusion of staff discussions with the authorities and the Executive Board consideration of the Article IV consultation reports (Section III). The key observations on the delays and time lags are as follows:

- The number of delayed Article IV consultations declined in the first quarter of 2011 relative to the fourth quarter of 2010 (Table 1 and Figure 1). Seven countries dropped out of the list, while five were added leaving a total of 19. The overall average delay has increased, reflecting the impact of the three most long-delayed cases (Argentina, Somalia, and Venezuela).
- In the first quarter of 2011, the average lag between the end of staff discussions and Board conclusion of Article IV consultations was well below the Board-established expectations for PRGT-eligible members (three months) but was above the expectations for others (65 days). Compared with the previous quarter, the average lag increased significantly, both for PRGT-eligible members and for others.

2. Staff also proposes a further approval of the retention of multiple currency practices subject to approval under Article VIII, Section 3 for the Islamic Republic of Iran and 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/}	Completion of 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	242
Venezuela*	9/13/2004	9/13/2005	...	No agreement on mission dates/modalities	64
Argentina*	7/28/2006	7/28/2007	...	No agreement on mission dates/modalities	41
Ecuador*	1/25/2008	1/25/2009	...	No agreement on mission dates/modalities	23
Costa Rica	9/23/2009	1/10/2011	May 2011	Authorities' request	3
Eritrea	12/7/2009	12/7/2010	...	No agreement on mission dates/modalities	1
Bahrain	5/22/2009	2/22/2011	...	Authorities' request	1
<i>Countries With a Fund Arrangement or a Policy Support Instrument 5/</i>					
Madagascar†*	6/25/2007	4/30/2009	...	Political and security situation	23
Guinea†*	12/21/2007	6/30/2009	October 2011	Political and security situation	21
São Tomé and Príncipe†*	6/18/2008	9/18/2009	April 2011	Program-related issues	18
Afghanistan†*	2/13/2008	12/25/2009	May 2011	Program-related issues	15
Ukraine†*	6/2/2008	5/15/2010	April 2011	Program-related issues	11
Angola†*	3/27/2009	6/27/2010	July 2011	Program-related issues	9
Niger†*	12/8/2008	9/30/2010	July 2011	Program-related issues	6
Greece*	7/24/2009	11/9/2010	September 2011	Program-related issues	5
Tanzania*	5/29/2009	12/4/2010	May 2011	Government Change	4
Kyrgyz Republic*	5/22/2009	12/9/2010	November 2011	Political and security situation	4
Solomon Islands	10/16/2009	1/16/2011	November 2011	Government Change	2
Pakistan	3/30/2009	3/30/2011	July 2011	Program-related issues	1

Source: Strategy, Policy, and Review Department.

1/ The status and classification of countries are as of March 31, 2011. 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 December 2010 report (EBD/10/82).

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.

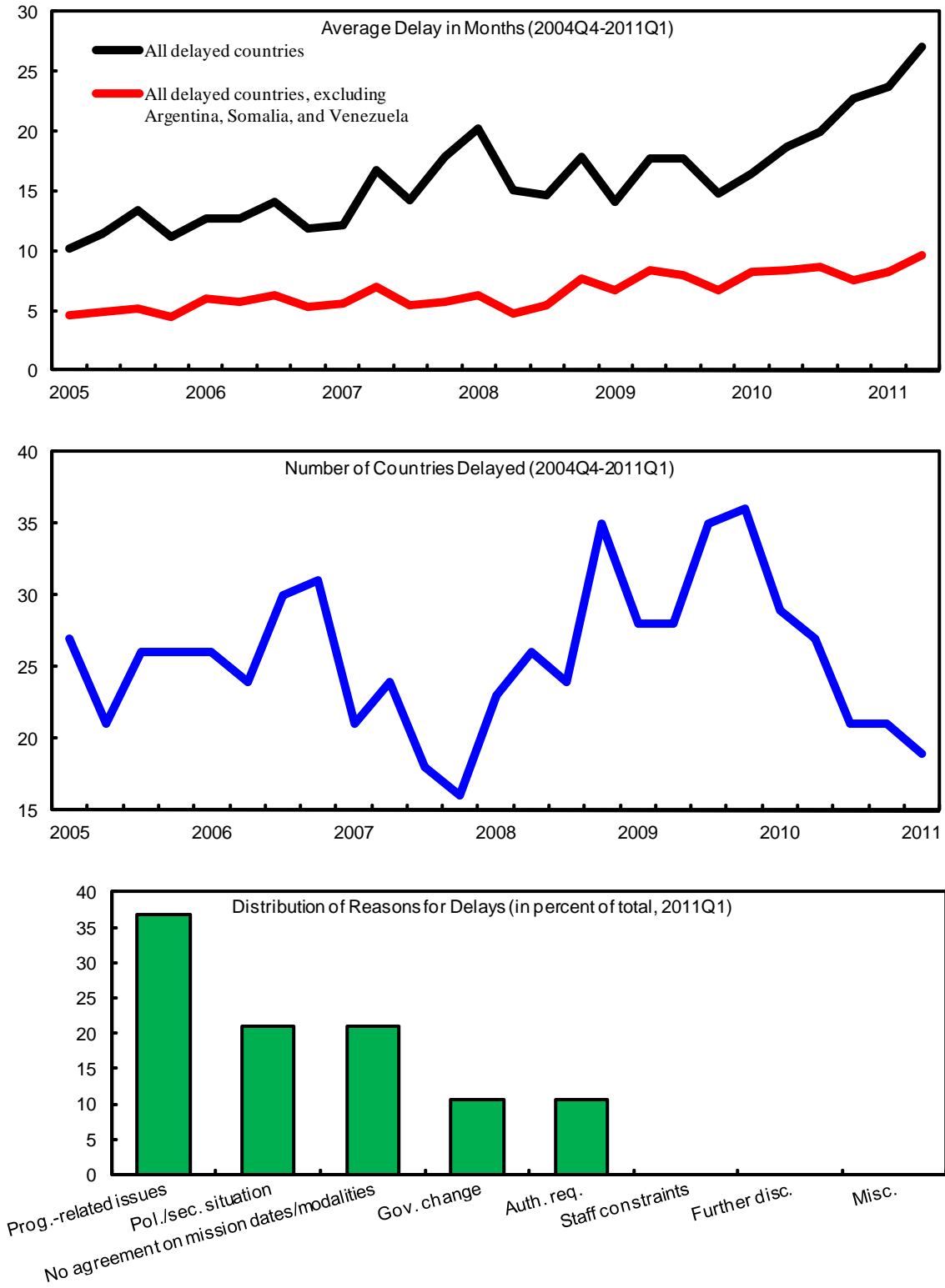
4/ The delay measures the lag between the stipulated date of completion of the next Article IV consultation plus the three-month grace period, where applicable, and end-March 2011. If the stipulated date for completion of the consultation falls in the first half of a given month, the calculation of the 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 2b of Decision No. 14747-(10/96), adopted on September 28, 2010, 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 issues, political/security situation, and no agreement on mission dates/modalities were the dominant reasons for delaying Article IV consultations during this quarter. The longest delays are still associated with three cases (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 September report (bolded entries in Table 1), as well as countries where there is no agreement on mission dates/modalities. Box 1 elaborates on the main reasons for delays.

3. **No agreement on mission dates/modalities.** Despite continued attempts by staff to conduct the Article IV consultation discussions with *Argentina* and *Venezuela*, neither of the countries' authorities has yet agreed on mission dates. Similarly, the consultation with *Eritrea* was delayed because the authorities have not agreed on mission dates. The consultation with *Ecuador* has not taken place because the authorities have not agreed on mission dates pending agreement with staff on the mission modalities.

4. **Program-related delays.** Intensive discussions on a new arrangement under the Extended Credit Facility (ECF) with *Afghanistan* have led to a further delay in the Article IV consultation. A recent mission assisted the authorities in finalizing an action plan to address banking system issues. A Board meeting for the Article IV consultation and a request for a new ECF arrangement is expected in May 2011. For *Pakistan*, prolonged discussions to bring its Stand-By Arrangement (SBA) back on track have delayed the Article IV consultation. A mission for the Article IV consultation is tentatively scheduled for May 2011 with an expected Board meeting in July 2011. For *Ukraine*, the Board consideration for the Article IV consultation and the second review under the SBA was further delayed to April 2011, pending implementation of prior actions by the authorities. Article IV consultation with *Sao Tome and Principe* was further delayed to align it with second and third reviews under the ECF arrangement. The Board meeting is now set for April 2011. For *Angola*, the Article IV consultation was initially deferred to accommodate the intensive policy discussions associated with completing the first three reviews under the SBA. Discussions for the Article IV consultation were initiated during the mission for the fourth review under the SBA held in November 2010, and will be completed during the mission for the fifth review under the SBA scheduled in May 2011 with an expected Board meeting in July 2011.² *Niger's* relations with

¹ Countries listed in Table 1 fall into four categories: (i) countries that are indefinitely delayed; (ii) countries whose status since the December 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 December 2010 report. Countries in categories (iii) and (iv) are highlighted in bold.

² The Article IV consultation discussions were split over two reviews because of staffing constraints.

the Fund were suspended for several months following the coup in February 2010. After the resumption of relations in September 2010, prolonged and intensive discussions to complete the fourth and fifth reviews under the ECF arrangement led to a further delay of the Article IV consultation. Staff expects to complete the Article IV and program review discussions with authorities on time for a Board meeting in July 2011.

5. **Authorities' Request.** The authorities in *Costa Rica* requested a delay in the Article IV mission to prepare a wide range of reform plans. The mission is scheduled for April 2011 with an expected Board meeting in May 2011. The Article IV consultation with *Bahrain* was delayed at the request of the authorities to allow time to reflect the economic policy implications of the National Dialogue that is planned to resolve political discontent that surfaced in February 2011.

6. **Political/security situation.** *Guinea's* relations with the Fund had been suspended following the poll of the Board in September 2009, which showed a majority of Fund members did not recognize the government. After the inauguration of a newly elected President in January 2011, the Fund resumed relations with Guinea and an Article IV consultation mission is expected by mid-2011 with a possible Board date in October 2011.

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 mission dates/modalities:** There was no agreement on the modalities for the mission/the authorities have not communicated dates for the Article IV consultation mission.
- **Miscellaneous:** Includes reasons not accommodated above. For this report, "Miscellaneous" includes a delay due to difficulties in scheduling the Board meeting.

7. **Government change.** Change in the government in *Solomon Islands* led to a further delay in the Article IV consultation. A combined mission of the Article IV consultation and the second or third reviews under the Standby Credit Facility (SCF) arrangement is scheduled for September 2011 with an expected Board meeting in November 2011.

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, where the lag is expected to be no more than three months.³

- The average lag for PRGT-eligible members was 75 days during this quarter. This is a marked rise from the previous quarter (56 days), but still well below the expectation of three months.
- For the rest of the membership, the average lag was 68 days. This is a significant increase compared to the previous quarter (51 days), and above the 65-day expectation.

9. The lag between the end of staff discussions and Board completion tends to be longer in the first quarter of the year than in other quarters because of end-of-year holidays. The transition to the new Board practice introduced in January 2011 to limit the number of Board items with grays to three per day also contributed to a slight increase in the average lag.⁴ In addition, a few Board discussions were delayed at the request of Executive Directors.⁵

³ The Board converted the 65-day (three-month for PRGT eligible countries) limit after the termination of the discussions with the authorities until conclusion of the 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.

⁴ The Article IV consultation Board discussions for Micronesia and Tuvalu were delayed to implement the new Board practice (Table 2).

⁵ The Article IV Board discussions for Algeria, Oman, Qatar, and Trinidad and Tobago were delayed to accommodate requests from Directors.

Table 2. Lag between End of Staff Discussions with the Authorities and Board Completion of Article IV Consultations
(January – March 2011)

	Member	Discussion End Date	Board Date ^{1/}	Lag ^{2/}	Delay ^{3/}
PRGT eligible members	Georgia	2/17/2011	3/23/2011	34	-
	Mongolia	2/1/2011	3/16/2011	43	-
	Myanmar	1/26/2011	3/16/2011	49	-
	Djibouti	11/13/2010	1/7/2011	55	-
	Congo, Rep. Of	11/22/2010	1/19/2011	58	-
	Comoros	10/31/2010	1/21/2011	82	-
	Nigeria	11/18/2010	2/11/2011	85	-
	Guyana	11/18/2010	2/16/2011	90	-
	Uganda	11/10/2010	2/11/2011	93	3
	Maldives	9/8/2010	2/14/2011	159	69
Average				75	
Average excluding Maldives				62	
Others	Belarus	2/3/2011	3/4/2011	29	-
	Israel	11/29/2010	1/12/2011	44	-
	Uruguay	12/13/2010	1/28/2011	46	-
	Estonia	12/13/2010	1/31/2011	49	-
	Hungary	12/10/2010	1/31/2011	52	-
	San Marino	1/14/2011	3/14/2011	59	-
	Swaziland	11/10/2010	1/10/2011	61	-
	Malta	11/22/2010	1/24/2011	63	-
	Macedonia, Fyr	11/17/2010	1/19/2011	63	-
	Oman	12/19/2010	2/23/2011	66	1
	Tuvalu	11/22/2010	1/28/2011	67	2
	Philippines	12/10/2010	2/18/2011	70	5
	Micronesia	11/17/2010	1/26/2011	70	5
	Algeria	11/2/2010	1/14/2011	73	8
	Trinidad & Tobago	11/8/2010	1/21/2011	74	9
	Fiji	11/12/2010	2/2/2011	82	17
	Gabon	11/21/2010	2/18/2011	89	24
	Qatar	11/9/2010	2/16/2011	99	34
	Belgium	12/13/2010	3/23/2011	100	35
	Libya	10/28/2010	2/9/2011	104	39
Average				68	

Source: Strategy, Policy, and Review Department.

1/ Actual date of Executive Board consideration (including on lapse of time) of the consultation during January - March,

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.

IV. EXCHANGE MEASURES UNDER ARTICLE VIII

Islamic Republic of Iran

10. The Islamic Republic of Iran maintains two multiple currency practices subject to Fund approval under Article VIII, Section 3, arising from measures taken in the context of the unification of the exchange rates in 2002. One multiple currency practice arises from budget subsidies for foreign exchange purchases in connection with payments of certain letters of credit opened prior to March 21, 2002 under the previous multiple exchange rate system. The other multiple currency practice arises from obligations of entities that had received allocations of foreign exchange at subsidized “allocated rates” under the previous multiple exchange rate system to surrender unused allocations to the Central Bank of Iran at the allocation rate.

11. The retention of both multiple currency practices had been approved by the Executive Board through February 2, 2011. The authorities are in the process of removing the multiple currency practices subject to Fund approval under Article VIII, Section 3. They request approval of the retention of these measures for a period of six months (through September 30, 2011) or the next Article IV consultation with the Islamic Republic of Iran, whichever is earlier, to allow them time to finalize the process. The staff considers that the grounds for approval of the retention of these multiple currency practices continue to be in place and recommends their approval as requested.

Latvia

12. 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 Executive Board initially approved the retention of the exchange restriction until June 30, 2009 (Decision No. 14226-(08/114), adopted December 23, 2008). The restriction was relaxed in 2009 and 2010—deposit withdrawal limits were increased and administrative requirements eliminated—and subsequent decisions by the Executive Board approved retention of the exchange restriction until June 30, 2010 (Decision No. 14469-(09/118), adopted November 24, 2009) and until December 31, 2010 (Decision No. 14679-(10/65), adopted June 29, 2010).

13. On July 31, 2010, the performing assets and most senior liabilities in Parex Bank (including all unencumbered customer deposits) were transferred to a newly-licensed “good” bank (Citadele Bank), with the remaining assets and liabilities remaining in Parex Bank. While the deposits in Citadele Bank are no longer subject to a deposit freeze, the authorities chose to maintain the restriction on the settlement of liabilities in Parex Bank to prevent a precipitous withdrawal of liquidity.

14. On December 30, 2010, the authorities informed staff of their intention to extend the exchange measure to end-June 2011 to ensure that Parex will be able to meet its obligations towards its syndicated lenders.⁶ The authorities argued that if Parex failed to meet its financial obligations it would negatively affect investors' perception of Latvia's creditworthiness and jeopardize Latvia's ability to tap international financial markets. They have therefore requested Board approval of the retention of the exchange restriction for balance of payments reasons until June 30, 2011.

15. 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 June 30, 2011 or the conclusion of the next Article IV consultation with Latvia, whichever is earlier.

Proposed Decisions

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

Decision 1:

The Fund approves the retention through September 30, 2011 or the conclusion of the next Article IV consultation, whichever is earlier, by the Islamic Republic of Iran of the multiple currency practices described in Section VII of SM/10/7, Supplement 1 as follows:

1. The multiple currency practice resulting from budget subsidies for foreign exchange purchases in connection with payments of certain letters of credit opened prior to March 21, 2002; and
2. The multiple currency practice resulting from the obligation to surrender unused allocations of foreign exchange to the Central Bank of Iran.

⁶ The restriction has been eased further: the limit on individual withdrawals has been raised from LVL 35,000 per calendar month to LVL 70,000 per calendar month.

Decision 2:

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 June 30, 2011 or the conclusion of the next Article IV consultation with Latvia, whichever is earlier.