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SM/87/117

Supplement 2

CONTAINS CONFIDENTIAL
INFORMATION

June 24, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Consultation Procedures - Initiation of the Bicyclic Procedure
and Proposed Changes in Cycles for Article IV Consultations

The attached supplementary material, together with the paper on options for simplified interim procedures (SM/87/139, 6/23/87), has been tentatively scheduled for a further review on Wednesday, July 8, 1987, of the cycles for Article IV consultations.

Mr. Belanger (ext. 8671) is available until June 26, 1987 and Mr. Sheehy (ext. 4508) thereafter to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Consultation Procedures--Initiation of the Bicyclic
Procedure and Proposed Changes in Cycles for Article IV
Consultations - Supplementary Material

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by L.A. Whittome

June 23, 1987

It was agreed at the conclusion of the Board meeting on June 8, 1987 that the staff would review further the cycles for Article IV consultations proposed in "Consultation Procedures--Initiation of the Bicyclic Procedure and Proposed Changes in Cycles for Article IV Consultations" (SM/87/117, 5/20/87). One speaker asked that the appropriateness of some of the proposed changes in cycles be looked at again. In addition, several Executive Directors were of the view, in light of the flexibility available through the spectrum of other consultation cycles (annual, biennial, bicyclic), that the 18-month consultation cycle could be discontinued.

The staff was asked to reconsider its recommendations with regard to 12 countries. Subsequently, the Board discussion for the 1987 Article IV consultation with Israel was held on June 15, 1987. No decision on the cycle for the next Article IV consultation with Israel was taken pending the further review of the bicyclic procedure. In light of the views expressed by some Executive Directors, the staff has reviewed Israel's circumstances and is not now in a position to change its recommendation.

Since SM/87/117 was issued (but before Board consideration of it), staff discussions for the next Article IV consultation have been held with three other countries for which it was suggested that the staff's recommendation be reviewed (Burma, Ireland, and Zimbabwe). No new considerations arose during these discussions which would lead the staff to change the recommendations put forward in SM/87/117. The Article IV consultation with these countries will provide Executive Directors with another opportunity to re-assess this position. In another case (South Africa), a mission team is currently holding consultation discussions with the authorities. It has been agreed during these discussions that the staff would propose that a regular annual cycle be adopted for South Africa.

Four other countries have either requested or expressed a firm wish to remain on a 12-month cycle: Botswana, Solomon Islands, the United Arab Emirates and the Yemen Arab Republic. The staff is not therefore in a position to change its recommendation for these countries.

The staff was also asked to reconsider the proposed consultation cycle for a further three countries (Iceland, Portugal, and Western Samoa). Staff discussions for the next Article IV consultation with these countries will be held during the remainder of 1987 or in early 1988 and would be a convenient occasion for reviewing with the respective authorities the question of an appropriate consultation cycle. In the meantime, the staff does not propose to change its earlier recommendation.

The staff has also reviewed, in light of Executive Directors' comments, whether different cycles should be proposed for those eight countries currently on 18-month cycles. The staff report for the 1987 Article IV consultation with Grenada which was issued recently (SM/87/109, 5/18/87) recommends, in light of continuing balance of payments strains and the possibility of use of Fund resources under the SAF, that the consultation cycle be changed from 18 to 12 months. One country currently on an 18-month cycle has been contacted with a view to agreeing on a bicyclic procedure. A similar change is being considered for two other countries; since the next Article IV consultation with these two countries is not scheduled to take place until 1988, it is proposed to seek the views of the authorities at the time of the Annual Meetings. For the other four countries, an 18-month cycle has been in place for some time already and has proved convenient and satisfactory both to the authorities and the staff. The staff would therefore propose to retain for the time being the 18-month cycle for these countries.

Two other country-specific issues were raised during the Board discussion on June 8, 1987. First, it was suggested that there should be a review of those cases in which there have been prolonged delays in concluding Article IV consultations. This issue will be reviewed on the occasion of the next "Semiannual Report on the Frequency of Consultations" to be prepared in the next few months. If Executive Directors wish, possible courses of action in these cases could be examined and the report, which is usually issued for information only, could be placed on the agenda. Second, it was suggested that the Article IV consultations with Aruba and the Netherlands Antilles should perhaps be regrouped with that for the Netherlands. The staff will examine whether this can be done but it may be administratively difficult.

The considerations outlined above would be reflected in the following changes in the staff's recommended consultation cycles in SM/87/117. The list of countries for which it was proposed to maintain a 12-month consultation cycle is being expanded through inclusion of Grenada and South Africa. The list of countries for which a bicyclic procedure was proposed is being changed, at present, only to reflect the proposed change for South Africa. As indicated above, however, further changes may be proposed at a later stage following discussions with the authorities of the members concerned. It is intended to retain 18-month cycles with at least four countries and to explore the possibility of adopting a different cycle, likely a bicyclic procedure, in three cases currently on 18-month cycles.