

FOR
AGENDA

SM/87/117

May 20, 1987

To: Members of the Executive Board

From: The Secretary

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

The attached paper on the initiation of the bicyclic procedure and proposed changes in the cycles for Article IV consultations is now proposed to be brought to the agenda for discussion on Monday, June 8, 1987.

Mr. Bélanger (ext. 8671) or Mr. Sheehy (ext. 4508) is available 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

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by L. A. Whittome

May 20, 1987

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In concluding the recent review of the implementation of surveillance, 1/ several Executive Directors noted the need for early steps to be taken to implement the bicyclic consultation procedure. To this end, it was agreed that a brief supplementary paper would be prepared which would include a list of members for which the bicyclic procedure could be appropriate, seek Board approval of the proposed changes in consultation cycles, and indicate how the procedure would be initiated with a view to spreading out the incidence of full and simplified consultations for these countries.

This paper provides a basis for discussion and decision by the Executive Board initiating the bicyclic procedure, including the adoption of new Article IV consultation cycles (in most cases, a bicyclic procedure) for several countries. In addition, several views have been expressed by Executive Directors concerning the appropriate form of involvement of the Board on the occasion of the interim simplified procedure. This issue is examined further in Section II below.

I. Implementation of the Bicyclic Consultation Procedure

1. Criteria for regular annual consultations

The procedures for surveillance state that members shall consult with the Fund regularly under Article IV and that these consultations shall in principle take place annually. However, with growing membership and a sharp increase in the workload of the Executive Board and staff on other issues, it has not proved feasible to adhere to the target of annual consultations for all members. Accordingly, with a view to ensuring that annual consultations take place with as many members as possible, including those for which the Fund's surveillance role is most important, the Executive Board adopted guidelines for consultation cycles in 1983. The frequency guidelines specify that Article IV consultations should be held annually with (i) members having Fund arrangements; (ii) members for which there are substantial doubts about the medium-term viability of their balance of payments; and (iii) members whose economies have a substantial impact on other countries. For other members, the interval between consultations may extend up to 24 months.

Executive Directors agreed in concluding the recent annual review of the implementation of surveillance that these guidelines for regular annual consultations should be retained. Executive Directors, however, considered that the application of the guidelines could be adapted to help reduce the workload of the Board and the staff. In particular, some Directors suggested that the range of application of the "larger"

1/ At EBM/87/39 (3/4/87). The Chairman's summing up of the discussion was circulated as SUR/87/27, 3/13/87.

country criterion could be narrowed from the 25 members with the largest Fund quotas which had been adopted in 1985. Directors also considered that the appropriateness of longer intervals between consultations or of adopting a bicyclic procedure should be examined for other members--excluding those with Fund arrangements--with whom regular annual consultations are held at present.

2. Proposed changes in consultation cycles

Proposed changes in consultation cycles for individual members are shown in Tables 1 and 2. These proposed changes, for the most part, involve the adoption of a bicyclic procedure for some members with whom full Article IV consultations were previously held annually. Adoption of these proposed changes would reduce the number of members with whom full Article IV consultations would be held annually to 110 (compared with 129 as of the end of 1986). Longer intervals between consultations of 18 or 24 months (without a simplified interim procedure) would apply in 14 cases while a bicyclic procedure would apply for 26 members. Consolidated lists of members for which full Article IV consultations would be held annually or at longer intervals, after adoption of the proposed changes in consultation cycles, are shown in Tables 3 and 4. Adoption of the proposed changes in cycles would reduce the incidence of full Article IV consultations from 130-135 per year in recent years to 115-120.

In preparing the attached proposals, application of the "large-country" criterion has been narrowed from the 25 members with the largest Fund quotas to 20 (i.e., members with quotas in excess of SDR 1 billion). As had been noted in the staff paper for the annual review of the implementation of surveillance, any specific cut-off point is, to some extent at least, arbitrary. ^{1/} However, a further narrowing of the criterion would quickly remove countries which are important trade partners and competitors for many other Fund members. In addition to countries with the 20 largest Fund quotas, full Article IV consultations at regular annual intervals were retained uniformly for countries with Fund arrangements, including those with arrangements under the Structural Adjustment Facility.

The application of the criterion indicating that annual consultations should be held with members for which there are substantial doubts about the medium-term viability of their balance of payments has also been adapted. As had been noted in the recent paper for the annual review of the implementation of surveillance, this criterion has been broadly applied in the past to encompass those cases in which there has been some degree of uncertainty concerning balance of payments viability. Inevitably, the application of such a criterion is a matter of judgment and the staff would suggest that in the initial application of the

^{1/} "Annual Review of the Implementation of Surveillance", (SM/87/29, 2/4/87).

bicyclic procedures a cautious and prudent approach should be followed so as to retain the expectation of an annual Board discussion for certain country cases where annual review by the Board would seem desirable. Thus, in preparing the attached proposals, the staff has continued to apply this criterion to a number of members which may not be characterized as clearly evidencing "substantial doubts" about the medium-term viability of their balance of payments but for whom certain characteristics of their external situation, including debt service and the maturity structure of debt, may suggest the usefulness of closer contact.

The question of whether the consultation cycle specified at the conclusion of the most recent Article IV consultation with individual members should be retained or whether a new consultation cycle (including the new bicyclic procedure) should be proposed was examined for all other members individually. The proposals in the attached tables reflect several considerations. In addition to those members for which medium-term prospects for their balance of payments suggest the desirability of closer contacts, it is proposed, in particular, to retain full annual Article IV consultations with several members considered important trading partners or competitors on a global or regional basis. In some cases also, the importance of a member as a financial center (at least regionally) or the member's circumstances (e.g., if the member is in the group of the 15 heavily indebted countries) indicated that a full annual Article IV consultation was preferable as it would provide an opportunity for a regular review of developments or policies of particular interest to other members. Annual cycles were also retained in some instances at the request of the member, even though the staff had considered that the bicyclic procedure might be appropriate. For example, the staff had considered the question of a bicyclic procedure in the case of Greece, but the Greek authorities have requested to remain on an annual consultation cycle. It is anticipated that there may be some additional similar requests.

Also, some Fund decisions and policies are clearly based on the notion of annual Article IV consultations with certain members. This is the case, for example, for those members for which the enhanced surveillance procedure was approved, members that are in arrears to the Fund, and members that have been declared ineligible to use the Fund's general resources. The proposed frequency of consultations with those members is consistent with the Fund's policies and decisions on these matters, including country-specific decisions, which may require the Fund to conduct an annual Article IV consultation with a member.

In most cases in which a longer interval between full Article IV consultations is proposed in the attached tables, the bicyclic procedure is being proposed. The adoption of a bicyclic procedure is also being proposed in a few cases in which an 18- or 24-month interval between consultations had applied previously. This reflects primarily the advantages of the bicyclic procedure noted earlier by the staff and Executive Directors of allowing the staff to remain better informed

through frequent contacts with the member's authorities and of scheduling missions regularly at a more convenient time of year. In other cases in which these considerations were not as important, longer intervals between Article IV consultations of 18 or 24 months, without a simplified interim procedure, were retained or are being proposed.

Members' authorities have agreed to the change in the majority of cases in which a new consultation cycle is proposed in Tables 1 and 2. In some cases, however, it has either not yet been possible to discuss the proposed change with the member's authorities or the authorities' agreement to the proposed change has not yet been confirmed. These members are identified in Tables 1 and 2. For these members, Executive Board approval of the change in consultation cycle will be sought after the agreement of the member's authorities to the proposed change has been received.

3. Initiation of the bicyclic consultation procedure

As was suggested by some Executive Directors in concluding the annual review of the implementation of surveillance, the incidence of full Article IV consultations and of simplified interim procedures should be spread out over time to avoid a bunching of full consultations every second year for those members for which a bicyclic procedure is adopted. For this purpose, it is intended that the next scheduled Article IV consultation with 9 of the 26 members for which a bicyclic procedure is proposed be a simplified interim procedure. These members are identified in Table 1.

II. Modalities of the Simplified Interim Consultation Procedure

Executive Directors' views expressed on the occasion of the recent review of the implementation of surveillance provide broad guidance on several aspects of the simplified interim procedure, in particular as regards the coverage of simplified interim consultation discussions and related reporting. Different views were expressed, however, concerning the form of the Board's involvement with the simplified interim procedure.

1. Coverage and reporting

As regards the coverage of simplified interim consultation discussions, Executive Directors agreed that the updating and analysis of developments and policies, including the sustainability of policies in a medium-term perspective, would have to provide a sufficient basis for appropriately forthright and specific assessments and recommendations. The staff paper for the annual review of the implementation of surveillance had suggested that, if no substantive issues or significant changes were apparent, the scope of the analysis and discussion would be limited in those areas in which the basic stance of policies is typically set for longer periods. In those areas, a more comprehensive

analysis and review on the occasion of the full biennial consultation could be sufficient. ^{1/} Practices in this respect can be expected to evolve as experience is gained with the new procedure and will have to be well-tailored to the circumstances of each member. The substantive coverage and depth of discussions in staff reports will have to balance, on one hand, economy in discussions and reporting and, on the other hand, the need to provide a sufficiently thorough analysis of developments and policies.

Within these broad parameters, Executive Directors considered that there should be considerable scope for economy. In addition to simplifying staff reports, Executive Directors agreed that background papers on recent economic developments (REDs) could be omitted on the occasion of the simplified interim procedure. The staff paper for the review of the implementation of surveillance had suggested in this respect that there could be only an updating of some of the tables for the full biennial consultation, as a supplement or annex to the staff report. In this latter case, staff reports would be similar to those which now include a large number of tables or charts and basic data. A somewhat fuller reporting may be required in some cases in which papers prepared by the staff on the occasion of Article IV consultations provide the only comprehensive analysis of economic developments and policies for the member. It would seem appropriate in those cases that the scope for economy in reporting be discussed with the member's Executive Director and country officials and take into account the role of regular Fund reporting on the member's economy in the international community.

Executive Directors noted that there was also scope for economy in reporting on the occasion of regular consultations. They noted, in particular, that staff reports could be shortened and that REDs could also be much simplified in many cases for which full consultations will continue to be held annually. Subject to the qualifications noted above on the need for fuller reporting in some cases and the need to consult with Executive Directors and country officials, it may be appropriate to simplify reporting requirements also for countries with full Article IV consultations every year. Shorter REDs every second year in those cases, including only an updating of the tables or, where appropriate, brief descriptions of important developments, would help relieve pressures on area departments in which most countries are on annual cycles for full Article IV consultations.

^{1/} Examples identified in the staff paper for the review of the implementation of surveillance included institutional, structural, development assistance and foreign investment policies. It was also noted that trade policy could belong to this group in some cases, although concerns with protectionism suggested that decisions on the depth of coverage of trade policy would have to be approached carefully.

The adoption of a bicyclic consultation procedure in the 26 cases in which such a procedure is proposed, as well as the simplification of reporting requirements, as appropriate, in some cases in which full Article IV consultations will be held annually, will save Board and staff resources. Not having a Board discussion will save Board and staff time, both in preparation for and attendance at the meeting. If REDs were not normally issued on the occasion of the interim procedure and only some of the tables were issued (as a supplement or annex to the staff report), a first estimate noted in the staff paper for the review of the implementation of surveillance is that 8-10 man-weeks of professional staff resources could be saved, equivalent to about one third of the professional staff resources devoted to reporting after a mission. 1/ Other savings (in particular, in preparing for missions or in discussions with the authorities) will depend primarily on the feasibility of narrowing the analysis and policy discussions on the occasion of the simplified interim procedure. 2/ Early experience in this respect will be reviewed on the occasion of the next annual review of the implementation of surveillance.

2. Involvement of the Executive Board

Another issue concerns the form of the Board's involvement on the occasion of the simplified interim procedure. During the recent review of the implementation of surveillance, most Directors expressed a preference for these reports to be placed on the agenda as a matter of course, but noted that it would typically not be expected that there would be a discussion by the Executive Board. The member, management, or an Executive Director could, however, request a discussion if it was felt that substantive issues should be brought to the attention of the Board.

Under paragraph II of the Procedures for Surveillance (Decision No. 5392--(77/63), adopted 4/29/77), a consultation under Article IV is not completed until conclusions are reached by the Executive Board. The interim procedure would therefore not be a consultation with the Fund unless there were action by the Board concluding it as a consultation. In the absence of a Board discussion, this would presumably take the form of a decision by the Board, adopted on a lapse-of-time basis, which

1/ SM/87/29, op.cit., p. 20.

2/ As was noted in the paper for the review of the implementation of surveillance, the possibility that the member, management or an Executive Director may request that a staff report for an interim consultation be discussed by the Board would also tend to limit the scope for narrowing the coverage and depth of preparatory work for the consultation and discussions with the authorities, at least until some experience has been acquired on circumstances in which such unplanned Board discussions were likely to be requested.

approved the conclusions set forth in the staff appraisal. ^{1/} It could be desirable in such a decision to specify that the consultation being concluded is an interim Article IV consultation, thus maintaining the identity of the regular Article IV consultation as the most comprehensive interrelation between the Fund and its members, involving full reporting and discussion by the Executive Board. An illustrative cover note from the Secretary circulating a staff report to Executive Directors which, in the absence of a request for discussion, would provide for the required Board action completing the consultation is reproduced in Annex I.

A question to consider in this context is whether the adoption of a decision concluding an interim consultation, which would endorse the staff appraisal, could result in a greater incidence of requests for discussion of staff reports. Because staff appraisals typically include relatively detailed and precise policy analysis and recommendations, it is likely that many Directors might be reluctant to approve an appraisal without some qualification or reservation, even though they might have no difficulty with the major thrust of the views included in it. There would thus seem to be some danger that such an alternative could result in a significant number of requests for discussion of staff reports for an interim consultation, which could reduce substantially the possible savings in staff and Board time that the interim procedure is intended to produce.

A second alternative would be to amend Paragraph II of the Procedures for Surveillance to permit an interim Article IV consultation to be completed without formal conclusions by the Executive Board. If this alternative were to be adopted, the item would be placed on the tentative schedule of Board meetings to indicate to members and to Executive Directors when a discussion, if requested, could take place. This would facilitate the process of requesting a discussion when that was considered necessary. However, it would be expected that there would be no discussion (and thus that the item, even though on the tentative schedule of Board meetings, would not be put on the final agenda) unless the member or an Executive Director felt that substantive issues should be brought to the attention of the Board, in which case prior indication of this intention would make it possible for the staff

^{1/} A separate question concerns the need for a decision concluding the annual Article XIV consultation with members availing themselves of the transitional arrangements of Article XIV, Section 2, and still retaining some restrictions originally encompassed by those transitional arrangements (see, "Periodicity and Form of Article XIV Consultations", SM/87/30, 2/4/87); or a decision approving the retention of restrictions under Article VIII. Consideration by the Executive Board of the staff paper prepared under the simplified Article IV procedure would provide the opportunity to conclude the Board action relating to Article VIII or Article XIV matters. The decision approving the restrictions under Article VIII or completing the Article XIV consultation could be adopted on a lapse-of-time basis.

to prepare for the discussion. 1/ In the absence of a request for a Board discussion (to be made normally within, say, two weeks after the issuance of the staff report), the interim Article IV consultation with the member would be deemed to have been completed. In the event that a Board discussion was requested, the Chairman's summing up of the discussion would serve to conclude the interim Article IV consultation. An illustrative cover note from the Secretary circulating a staff report to Executive Directors under this second alternative is reproduced in Annex II. 2/ A draft decision providing for the amendment of the 1977 Document that will be required if this alternative is selected is attached as Annex III.

A third alternative would be to circulate staff reports on the occasion of the interim procedure only for the information of Executive Directors. The reports would not, in the absence of a request for a discussion, be placed on the tentative schedule of Board meetings or on the agenda. In the absence of a request for a Board discussion, this third alternative would involve only management and staff and would be considered simplified interim consultation discussions rather than a consultation with the Fund. A possible risk with such an option is that the reduced involvement of the Executive Board could lead over time to an attenuation of the influence of the interim procedure. As in the case of the second alternative, in the event that a Board discussion was requested, the Chairman's summing up of the discussion would serve to conclude the interim Article IV consultation.

Of the three alternatives discussed above, it would seem that the second option is the most advantageous. It maintains the identity of the simplified interim procedure as a consultation with the Fund, continues the involvement of the Executive Board in the discussions with the member in the years between regular consultations, and thus gives to the interim procedure a degree of emphasis that would not be present if reports were issued for information only. Thus, the second option ensures that the simplified interim procedure will not result over time in a weakening of the Article IV consultation process.

As was indicated in the Chairman's summing up of the review of the implementation of surveillance, the bicyclic procedure is to be implemented on an experimental basis and subsequent annual reviews of the implementation of surveillance will provide regular opportunities for a review of the procedure. In order to initiate the procedure, however, a decision is needed on the appropriate form of involvement of the Executive Board during the initial period.

1/ If management considered that a Board discussion were desirable, this could be indicated at the time the item was placed on the agenda.

2/ The only difference between the cover note in Annex II and that in Annex I is that the last sentence in Annex II omits the words "without discussion and the conclusions set forth in the staff appraisal will be deemed to have been approved by the Executive Board."

III. Conclusion

The Chairman's summing up of the Board discussion of this paper will establish the modalities of the simplified procedure for the initial period and will constitute the basic decision on Article IV consultation cycles for those countries for which changes are being sought at this time. For other countries for which a change in consultation cycle is being considered (as noted in the attached tables) but for which agreement of the member has not been received, a separate approval by the Board of the proposed change in consultation cycle will be sought after confirmation of the member's agreement.

Table 1. Countries Proposed for Bicyclic Consultation Procedure

Proposed for Bicyclic Consultation Procedure <u>1/</u>	Current Cycle
African Department	
* Algeria	12
* Cape Verde	<u>2/</u>
Mauritius <u>3/</u>	12
* Seychelles	12
Asian Department	
Bhutan	18
* Fiji	<u>2/</u>
* Kiribati	<u>2/</u>
Lao People's Democratic Republic	12
* Maldives	<u>2/</u>
* Papua New Guinea	12
Tonga	18
European Department	
Austria	12
* Cyprus	<u>2/</u>
Finland	18
Iceland	12
Ireland <u>3/</u>	12
Israel	12
Norway	12
Portugal	12
South Africa	12
Middle Eastern Department	
Jordan	12
Lebanon	12
Libya <u>3/</u>	24
* Oman	12
Yemen, P.D.R.	12
Western Hemisphere Department	
Barbados	12

1/ An * indicates that the next scheduled consultation will be a simplified one.

2/ The possibility of adopting a bicyclic procedure has already been endorsed by the Executive Board in concluding the most recent consultation.

3/ Proposed change in consultation cycle has not yet been agreed with the member's authorities.

Table 2. Other Proposed Changes in Consultation Cycles

	Proposed Cycle	Present Cycle
European Department		
Malta <u>1/</u>	24	18
Netherlands Antilles <u>1/</u>	24	18
Western Hemisphere Department		
Belize	18	12

1/ Proposed change in consultation cycle has not yet been agreed with the member's authorities.

Table 3. Countries for Which Next Article IV Consultation
is Set on a Twelve-Month Interval 1/

Country	Country	Country
African Department		
Benin	Gambia, The	Nigeria
Botswana	Ghana	Rwanda
Burkina Faso	Guinea	São Tomé and Príncipe
Burundi	Guinea-Bissau	Senegal
Cameroon	Kenya	Sierra Leone
Central African Rep.	Lesotho	Somalia
Chad	Liberia	Swaziland
Comoros	Madagascar	Tanzania
Congo	Malawi	Togo
Côte d'Ivoire	Mali	Tunisia
Djibouti	Mauritania	Uganda
Equatorial Guinea	Morocco	Zaire
Ethiopia	Mozambique	Zambia
Gabon	Niger	Zimbabwe
Asian Department		
Bangladesh	Japan	Singapore
Burma	Korea	Solomon Islands
China, Peoples Rep. of	Malaysia	Sri Lanka
India	Nepal	Thailand
Indonesia	Philippines	Viet Nam
		Western Samoa
European Department		
Australia	Hungary	Spain
Belgium	Italy	Sweden
Denmark	Netherlands	Turkey
France	New Zealand	United Kingdom
Germany	Poland	Yugoslavia
Greece	Romania	
Middle Eastern Dept.		
Afghanistan	Saudi Arabia	United Arab Emirates
Egypt	Sudan	Yemen Arab Republic
Pakistan	Syrian Arab Republic	
Western Hemisphere Dept.		
Antigua and Barbuda	Dominican Republic	Nicaragua
Argentina	Ecuador	Panama
Bolivia	El Salvador	Paraguay
Brazil	Guatemala	Peru
Canada	Guyana	Suriname
Chile	Haiti	Trinidad & Tobago
Colombia	Honduras	United States
Costa Rica	Jamaica	Uruguay
Dominica	Mexico	Venezuela

Source: Exchange and Trade Relations Department.

Table 4. Countries for Which Next Article IV Consultation
Is Set on a Longer Interval 1/

Country	Interval (Months)
Asian Department	
Vanuatu	18
European Department	
Aruba	24
Luxembourg	24
Malta	24
Netherlands Antilles	24
Middle Eastern Department	
Bahrain	18
Kuwait	18
Qatar	24
Western Hemisphere Department	
Bahamas, The	24
Belize	18
Grenada	18
St. Kitts and Nevis	18
St. Lucia	(18)
St. Vincent and the Grenadines	18

Source: Exchange and Trade Relations Department.

1/ After approval of proposed new cycles. Not including those countries for which a bicyclic procedure would apply (see Table 1).

DRAFT

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CONTAINS CONFIDENTIAL
INFORMATION

October 16, 1987

To: Members of the Executive Board

From: The Secretary

Subject: [Member Country] -- Staff Report for the 1987 Article IV
Interim Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV interim consultation with [Member Country], which has been prepared in accordance with the simplified procedures for interim consultations under Article IV. In the Tentative Schedule of Executive Board Meetings, this matter has been included in the preliminary agenda for November 6, 1987 [three weeks from issuance date]. However, in accordance with the procedures for interim consultations under Article IV, in the absence of a request from an Executive Director by the close of business on Friday, October 30, 1987 [two weeks from issuance date] that this matter be taken up for discussion in the Executive Board, the 1987 Article IV interim consultation with [Member Country] will be deemed to have been completed without discussion and the conclusions set forth in the staff appraisal will be deemed to have been approved by the Executive Board.

SM/87/---

CONTAINS CONFIDENTIAL
INFORMATION

October 16, 1987

To: Members of the Executive Board
From: The Secretary
Subject: [Member Country] -- Staff Report for the 1987 Article IV
Interim Consultation Discussions

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV interim consultation with [Member Country], which has been prepared in accordance with the simplified procedures for interim consultations under Article IV. In the Tentative Schedule of Executive Board Meetings, this matter has been included in the preliminary agenda for November 6, 1987 [three weeks from issuance date]. However, in accordance with the procedures for interim consultation discussions under Article IV, in the absence of a request from an Executive Director by the close of business on Friday, October 30, 1987 [two weeks from issuance date] that this matter be taken up in the Executive Board, the 1987 Article IV interim consultation with [Member Country] will be deemed to have been completed.

Proposed Amendment to Procedures for Surveillance

If the second alternative form of Executive Board involvement in the simplified interim procedure is selected, an amendment to the procedures for surveillance will be necessary. In that event, the following draft decision would be proposed for adoption by the Executive Board.

"Paragraph II of the Procedures for Surveillance (Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, as amended) is amended to read as follows: 1/

II. Members shall consult with the Fund regularly under Article IV. In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV, except that an interim consultation with a member may be completed by the Executive Board without reaching conclusions."

1/ Proposed changes have been underlined.