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INFORMATION

August 28, 1985

To: Members of the Executive Board
From: The Acting Secretary
Subject: Frequency of Article IV Consultations - Semiannual Report

There is attached for the information of the Executive Directors a semiannual report on the frequency of Article IV consultations.

Mr. Bélanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Frequency of Article IV Consultations:
Semiannual Report

Prepared by the Exchange and Trade Relations Department
(In consultation with the Secretary's Department and
other departments)

Approved by C. David Finch

August 28, 1985

The Chairman's summing up at the conclusion of the 1984 Surveillance Review (SUR/84/32, 3/23/84) called for semiannual reports on problems encountered in carrying out Article IV consultations on a timely basis. The first such report (SM/84/227) was issued in October 1984. The present paper reports on the experience with Article IV consultations during the first half of 1985, reviews the specification of consultation cycles over this period, and provides a listing of forthcoming consultations for the information of Executive Directors.

1. Consultations during the first half of 1985

During the first six months of 1985, 67 consultations were concluded, involving 45 percent of members compared to 61 (42 percent of members) during the same period in 1984. Based on the dates specified for the conclusion of consultations during the second half of the year and taking into account recent experience as regards the completion of consultations, some 130 consultations ^{1/} are projected to be concluded in 1985, compared to about 120 each year during the last two years (Table 1).

As of-end June 1985, 3 members (Table 2) had not had consultations for more than 24 months, ^{2/} compared with 4 at the end of 1984, 6 at the end of 1983, and 19 at the end of 1982. The consultations for two of these members for which no consultation has been held for more than 24 months (Islamic Republic of Iran and Iraq) have been delayed by security problems: cases where the member, in a situation of armed

^{1/} This projection is based on the fact that the specified cycle for consultations concluded in 1984 and the first half of 1985 was exceeded on average by four weeks, reflecting some use of the three-month grace period. If all consultations were concluded within the specified cycle, the number of consultations concluded in 1985 would reach 142.

^{2/} In setting up the system of advance specification of cycles the Executive Board considered that even for countries on longer cycles the interval between consultations should not exceed 24 months.

conflict, has declined to receive a consultation mission, or where the security of the mission cannot be assured. There has been no contact with Democratic Kampuchea.

2. Delays in concluding consultations

During the first six months of 1985, the 3-month grace period after the end of the specified consultation cycle was exceeded in nine cases (Table 3). In contrast with the more lengthy delays encountered before the inception of the consultation cycle system, however, the delays experienced in these cases have been a matter of a few days or weeks, or at most a few months. These delays in concluding consultations have been generally attributable either to continuing discussions for the use of Fund resources or to difficulties in fielding the staff mission (often as a result of staff involvement in missions to other countries), which results in some initial use of the grace period and leaves little scope for slippage.

Eight other countries have already been identified for which the consultation cycle (plus grace period) has been or is likely to be exceeded in the second half of 1985 (Table 4). Extensions beyond the end of the grace period are likely to be required in other cases as well. There will thus be somewhat more than 20 cases of delayed consultations in 1985, slightly higher on an annual basis than during the second half of 1984 (10 cases over a six-month period) when overdue consultations were first identified following the implementation of the cycle system.

3. Specification of consultation cycles

The Procedures for Surveillance state that, in principle, Article IV consultations with each member are to take place annually. The workload implicit in carrying out all consultations on such a basis, however, has led to the adoption of longer cycles--up to two years--in selected cases. The standard 12-month cycle, however, has been required for certain countries, specifically: "(1) Those members whose economies are on such a scale that developments in them have a substantial impact on other countries, on either a global or a regional basis. (2) Those members that have financial programs with the Fund. (3) Those members whose situation warrants careful scrutiny, in particular those where there are substantial doubts about the medium-term viability of the member's balance of payments situation." ^{1/} Directors have also considered that smaller members for which longer consultation cycles would otherwise be appropriate should be entitled to request the standard cycle.

^{1/} "Annual Review of the Implementation of Surveillance, "SM/83/43, p. 15.

As of end-June 1985, standard 12-month cycles were specified for consultations with 127 members and longer cycles for 18 members, while in 3 cases a cycle had not been specified. ^{1/} In addition to the countries with the 24 largest Fund quotas, the standard 12-month cycle had been specified for one country considered important at the regional level; 58 countries with a Fund stand-by or extended arrangement, or for which such an arrangement has either recently ended or is being considered; 37 countries whose situation indicates a need for close scrutiny; and 7 countries for which the standard cycle was specified at the request of the authorities.

Thus, nearly 90 percent of member countries are currently on a standard cycle, while SM/83/43 which originally proposed the implementation of cycles, suggested that some 75 to 80 percent of members could be expected to be on a standard cycle, given the guidelines. This greater incidence of members for which standard 12-month cycles have been specified reflects in part the deterioration in the external position of a wide range of members for which it was thought originally that a longer cycle would be appropriate, but which are currently on a standard cycle because of severe balance of payment difficulties, many of which have a Fund stand-by or extended arrangement. In particular, only one country in the African Department is at present on a longer cycle (Table 6), while it had been thought in late 1982-early 1983 that a longer cycle would be appropriate for about 20 African members. Also, consistent with the establishment of the standard 12-month cycle as the norm in order to improve the regularity of consultations, longer cycles have been considered exceptional, to be used only in appropriate circumstances.

During the first six months of 1985, consultation cycles were changed in 9 cases from those which had been specified earlier. Standard cycles were specified for Lebanon and Chad (for which no specific time had been set earlier owing to security problems) and for Austria, Benin, Djibouti, Jordan, the Netherlands Antilles, and the Seychelles (for which a longer cycle had previously applied). The specification of the standard cycle in the case of Djibouti and the Seychelles was at the request of the authorities, while Austria is among the 25 largest member countries. In the case of Luxembourg a longer cycle of 24 months was specified (instead of the earlier outer limit of 18 months). Consultation cycles were specified for the first time in 6 cases: standard cycles were specified for Comoros, Mozambique, and Yugoslavia while longer cycles were specified for Cape Verde, Libya, and St. Christopher and Nevis.

^{1/} Including Mozambique, which had its first consultation concluded on July 3, 1985. A cycle of 18 months was specified for the United Arab Emirates in July, bringing the total of members with consultations on longer cycles to 19.

Directors have made several recommendations to reduce the workload of the Board and staff. 1/ As regards the frequency of consultations, Directors have noted the desirability of focusing efforts on those situations most in need of attention and have suggested that more differentiation in specification of cycles would be appropriate. One possibility would be to lengthen the interval between consultations for those countries already on longer cycles. However, because of the small number of countries currently on longer cycles, this would not have a major impact on the workload: providing for a 24-month interval for all countries currently on longer cycles would reduce the total number of consultations by only 3 each year. Another possibility would be to increase the number of countries for which longer cycles are specified. The rationale for recommending Board approval of standard 12-month cycles for countries not using Fund resources is being examined carefully on a case-by-case basis although, as indicated above, few cases have been identified during the first half of 1985 for which a longer cycle would seem appropriate. The experience in this respect will be examined more fully, based on a review over a full twelve-month period, in the staff papers for the next annual review of surveillance.

4. Forthcoming consultations

Tables 5 and 6 list the dates for the conclusion of forthcoming consultations implied by the consultation cycles specified at the conclusion of the previous consultation. The grace period permits consultations to be concluded up to three months after these dates; in some cases, as noted above, delays beyond the grace period also occur.

The regular updating of the list of forthcoming consultations in the annual reviews of surveillance and semiannual reports of the frequency of consultations is provided for the convenience of Directors to help ensure that issues which Directors wish to see discussed with the authorities are notified to the staff in advance of consultation missions. Typically, discussions with the authorities take place four months before the dates indicated. A list of tentative dates for the conclusion of Article IV consultations is also provided regularly as part of the Managing Director's statement on the work program.

1/ Most recently, at the time of the annual review of the implementation of surveillance (EBM/85/49, 3/25/85) and during the discussion of the work program (EBM/85/81 and EBM/85/82, 5/29/85).

Table 1. Frequency of Regular Article IV Consultations:
Recent Experience

	1982	1983	1984	1985 Proj.	1984 Jan.-June	1985 Jan.-June
	<u>(During Period)</u>					
Number of consultations concluded	82	120 <u>1/</u>	119 <u>1/</u>	130 <u>2/</u>	61	67
(Percent of membership)	(57)	(80)	(80)	(86.6)	(41.8)	(44.6)
	<u>(End of Period)</u>					
Number of countries for which more than 24 months have elapsed since conclusion of last consultation	19	6	4	3	3	3

1/ Two Article IV consultations were discussed by the Board within a single calendar year for two countries in 1983 and for one country in 1984, and separate consultations were concluded with the Netherlands and Netherlands Antilles in 1983 and during the first six months of 1985. The number of members covered was thus 117 in 1983 and 118 in 1984 and would be 129 in 1985.

2/ Assuming consultations during the second half of 1985 are concluded, on average, 4 weeks into the "three-month grace period".

Table 2. Members for which More than 24 Months
have Elapsed Since Last Consultation

(as of June 30, 1985)

Member	Date Last Consultation Concluded	Number of Months Since Last Consultation	Projected Date for Conclusion of Next Consultation	Explanation
Democratic Kampuchea	10/8/73	141	--	No contacts
Iran, Islamic Rep. of	10/6/78	81	--	Security problems <u>1/</u>
Iraq	2/29/80	65	--	Security problems <u>1/</u>

1/ "Security problems" refers to cases where the member, in a situation of armed conflict has declined to receive a consultation mission, or where the security of the mission cannot be assured.

Table 3. Countries Exceeding Specified Consultation Cycles
During January - June 1985

	End of Grace Period	Date Concluded	Number of Months Between Consultations	Explanation
<u>African Department</u>				
Mali	3/9/85	5/3/85	17	Delay in fielding mission due to staff involvement in missions to other countries.
Nigeria	5/13/85	6/17/85	16	Issuance of staff report delayed by staff involvement in missions to other countries.
Senegal	12/19/84	1/16/85	16	Issuance of staff report delayed by continuing discussion on use of Fund resources.
Seychelles	3/31/85	4/24/85	16	An 18-month cycle had been envisaged. By error, summing up referred to time of next mission.
Zaire	3/16/85	4/24/85	16	Issuance of staff report delayed by continuing discussions on use of Fund resources.
<u>Asian Department</u>				
Thailand	5/15/85	6/14/85	16	Issuance of staff report delayed by continuing discussions on use of Fund resources.
<u>European Department</u>				
Italy	4/27/85	5/24/85	16	Delay in fielding mission due to staff involvement in missions to other countries.
Malta	4/18/85	4/29/85	15	Minor delay due to Interim Committee meeting.
<u>Western Hemisphere Department</u>				
Trinidad and Tobago	2/28/85	5/1/85	17	Earlier timing for mission could not be agreed with the authorities.

Table 4. Countries Likely to Exceed Specified Consultation Cycles during July - December 1985

	End of Grace Period	Expected Date	Delay Beyond Grace Period	Comment
<u>African Department</u>				
Algeria	7/18/85	9/9/85	8 weeks	Delay in fielding mission due to staff involvement in missions to other countries and delays experienced in scheduling Board discussion.
Kenya	8/16/85	September	1½ months	Delay in fielding mission due to staff involvement in missions to other countries and authorities' preference to have mission after budget preparation period.
Liberia	7/6/85	7/24/85	2 weeks	Delay in issuance of staff report due to continuing discussions on use of Fund resources.
Morocco	7/9/85	... 1/	...	Delay associated with continuing discussions on use of Fund resources.
Somalia	7/31/85	8/9/85	1 week	Minor delay associated with discussions on use of Fund resources that have not yet been concluded.
<u>Middle Eastern Department</u>				
Qatar	9/14/85	Jan. 1986	4 months 2/	Extension approved by management to accommodate authorities' preference to have mission at same time of year as the previous one.
Syria	12/10/85	Feb. 1986	2 months	Earlier timing for mission could not be agreed with the authorities.
<u>Western Hemisphere Department</u>				
Brazil	8/9/85	8/28/85	3 weeks	Minor delay associated with continuing discussions on use of Fund resources.

1/ The Board discussion on Morocco, previously scheduled for 8/27/85 is being rescheduled (see Tentative Schedule of Executive Board Meetings, 8/23/85).

2/ Relative to originally specified cycle.

Table 5. Countries on Standard 12-Month Consultation Cycle

(As of August 25, 1985)

Country	Date by Which Next Consul- tation to be Concluded <u>1/</u>	Country	Date by Which Next Consul- tation to be Concluded <u>1/</u>
<u>African Department</u>			
Algeria	04/18/85 <u>2/</u>	Madagascar	10/09/85
Benin	03/08/86	Malawi	05/22/86
Botswana	04/10/86	Mali	05/03/86
Burkina Faso	10/19/85	Mauritania	12/10/85
Burundi	05/09/86	Mauritius	10/05/85
Cameroon	06/18/85 <u>3/</u>	Morocco	04/09/85 <u>2/</u>
Chad	04/26/86	Mozambique	07/03/86
Central African Rep.	07/06/85 <u>3/</u>	Niger	07/08/86
Comoros	02/25/86	Nigeria	06/17/86
Congo	11/05/85	Rwanda	10/15/85
Djibouti	06/17/86	Sao Tome and Principe	11/19/85
Equatorial Guinea	10/12/85	Senegal	01/16/86
Ethiopia	06/14/86	Seychelles	04/24/86
Gabon	03/15/86	Sierra Leone	11/05/85
Gambia, The	11/26/85	Somalia	08/09/86
Ghana	08/27/85	Swaziland	07/31/86
Guinea	10/31/85	Tanzania	12/09/85
Guinea-Bissau	08/27/85	Togo	05/17/86
Ivory Coast	06/03/86	Tunisia	08/10/85 <u>3/</u>
Kenya	05/16/85 <u>2/</u>	Uganda	02/08/86
Lesotho	08/29/85	Zaire	04/24/86
Liberia	07/24/86	Zambia	07/18/85 <u>3/</u>
		Zimbabwe	09/12/85 <u>4/</u>
<u>Asian Department</u>			
Bangladesh	07/20/85 <u>3/</u>	Malaysia	07/24/86
Burma	03/01/86	Maldives	01/23/86
China, Peoples Rep. of	11/07/85	Nepal	11/30/85 <u>5/</u>
Fiji	01/25/86	Papua New Guinea	08/07/86
India	02/22/86	Philippines	06/29/85 <u>3/</u>
Indonesia	02/08/86	Sri Lanka	05/22/86
Japan	03/04/86	Thailand	06/14/86
Korea	07/12/86	Viet Nam	07/01/86
Lao, P.D.R.	02/27/86	Western Samoa	02/04/86
<u>European Department</u>			
Australia	02/20/86	Italy	05/24/86
Austria	05/22/86	Netherlands	05/01/86
Belgium	05/31/86 <u>6/</u>	Netherlands Antilles	02/15/86
Cyprus	12/19/85	New Zealand	06/10/86
Denmark	03/18/86	Portugal	07/30/85 <u>3/</u>
France	07/29/86	Romania	09/12/85
Germany	08/02/86	South Africa	06/07/86
Greece	05/17/86	Spain	08/10/85 <u>3/</u>
Hungary	03/08/86	Sweden	08/07/86
Iceland	11/28/85	Turkey	10/10/85
Ireland	09/14/85	United Kingdom	03/06/86
Israel	05/24/86	Yugoslavia	04/29/86

Table 5 (Concluded). Countries on Standard 12-Month Consultation Cycle

(As of August 25, 1985)

Country	Date by Which Next Consul- tation to be Concluded <u>1/</u>	Country	Date by Which Next Consul- tation to be Concluded <u>1/</u>
<u>Middle Eastern Department</u>			
Afghanistan	09/14/85	Saudi Arabia	07/26/86
Egypt	08/07/86	Sudan	12/19/85
Jordan	06/26/86	Syrian Arab Republic	09/10/85
Lebanon	02/20/86	Yemen Arab Republic	11/21/85
Pakistan	02/27/86	Yemen, P.D.R.	06/10/86
<u>Western Hemisphere Department</u>			
Argentina	09/04/85	Guatemala	06/21/86
Bahamas	06/12/86	Guyana	08/31/85
Barbados	08/10/85 <u>3/</u>	Haiti	02/04/86
Belize	06/28/86	Honduras	02/11/86
Bolivia	07/18/85 <u>3/</u>	Jamaica	07/17/86
Brazil	05/09/85 <u>2/</u>	Mexico	06/07/86
Canada	02/27/86	Nicaragua	03/04/86
Chile	07/15/86	Panama	07/15/86
Colombia	07/26/86	Paraguay	01/11/86
Costa Rica	08/01/85 <u>3/</u>	Peru	12/21/85
Dominica	07/15/86	Suriname	03/22/86
Dominican Republic	08/08/85 <u>3/</u>	Trinidad and Tobago	05/01/86
Ecuador	06/20/85 <u>3/</u>	United States	08/05/86
El Salvador	12/05/85	Uruguay	04/08/86
Grenada	11/21/85	Venezuela <u>7/</u>	08/31/85

Source: Exchange and Trade Relations Department.

1/ On basis of 12-month cycle. Conclusion of consultation within the grace period of three months after the date specified would be considered in compliance with the guideline.

2/ See Table 4.

3/ Conclusion date is expected to be within grace period permitted by guidelines.

4/ Two consultations were concluded with Zimbabwe in 1984. A standard cycle was specified on both occasions.

5/ The 1984 Consultation with Nepal was concluded in June 1984. Timing specified for next consultation is to allow shift in date of mission to accommodate authorities' preferences.

6/ The 1984 Consultation with Belgium was concluded in January 1985. Timing specified for next consultation is to allow shift in date of mission to accommodate authorities' preferences.

7/ Venezuela had a supplemental consultation on 5/30/85 under enhanced surveillance procedures.

Table 6. Countries on Longer Consultation Cycles

(As of August 25, 1985)

Country	Date by Which Next Consultation to be Concluded <u>1/</u>	Cycle (Months) <u>2/</u>
<u>African Department</u>		
Cape Verde	(09/20/86)	18
<u>Asian Department</u>		
Bhutan	(05/28/85) <u>3/</u>	18
Singapore	06/30/86	(17)
Solomon Islands <u>4/</u>	07/09/85 <u>3/</u>	(18)
Vanuatu	(12/27/85)	18
<u>European Department</u>		
Finland	(01/17/87)	18
Luxembourg	(06/17/87)	24
Malta	(10/29/86)	18
Norway	07/31/86	(19)
<u>Middle Eastern Department</u>		
Bahrain	(09/06/86)	18
Kuwait <u>4/</u>	07/16/86	18
Libya	(06/03/87)	24
Oman	06/30/86	(16)
Qatar	(06/14/85) <u>5/</u>	18
United Arab Emirates	(01/22/87)	18
<u>Western Hemisphere Department</u>		
Antigua and Barbuda	11/30/86	(18)
St. Christopher and Nevis	06/30/86	(17)
St. Lucia	11/30/85	(18)
St. Vincent	01/31/86	(18)

Source: Exchange and Trade Relations Department.

1/ Date specified in summing up or if in parentheses, date derived from specification in summing up in terms of number of months.

2/ Parentheses indicate that number of months is derived from date specified in summing up.

3/ Conclusion is expected to be within the grace period permitted by guidelines.

4/ Summing up referred to date of staff discussion consistent with 18-month cycle.

5/ To accommodate the authorities' preference regarding the timing of the mission, the time of the consultation has been changed from the specified 18-month cycle to the end of 1985.

