

**LAPSE OF
TIME**

SM/20/89

Correction 1

April 21, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Extension of Consultation Cycles Due to COVID-19 Pandemic**

Board Action: The attached corrections to SM/20/89 (4/14/20) have been provided by the staff:

Evident Ambiguity **Pages 1 and 5 (para. 7; footnote 14, lines 2–3)**

Typographical Errors **Page 5 (footnote 14, “feasible”)**

Additional information: Page 5, para. 7 and footnote 14 have also been modified necessitated by the Board’s approval of the establishment of the Short-Term Liquidity Line (SLL).

Questions: Mr. Hart, SPR (ext. 36388)
Ms. Morgan, SPR (ext. 37798)
Ms. Rendak, LEG (ext. 34104)
Ms. Ams, LEG (ext. 38053)



April 13, 2020

EXTENSION OF CONSULTATION CYCLES DUE TO COVID-19 PANDEMIC

EXECUTIVE SUMMARY

The COVID-19 pandemic and related pressures are currently placing an enormous strain on the membership and the global economic and financial system. There is pervasive uncertainty over the scale and duration of the shock. The Fund is responding to unprecedented demand from the membership for financing and crisis support. In this environment, proceeding with Article IV consultations and mandatory Financial Stability Assessments (FSAs) is problematic in terms of both resource pressures and the high likelihood that any published reports will become rapidly outdated, and thus of limited value. To deal with these exceptional circumstances, Management has implemented a temporary postponement of staff work on Article IV consultations and mandatory FSAs, with a few exceptions for practical and operational reasons.

Accordingly, this paper proposes that the Board extend by six months the expected deadlines for Article IV consultations deadlines for all members and for discussions with each of the currency unions by six months. Such an extension will allow additional time for member countries and the Fund to conduct Article IV consultations and is necessary to avoid inadvertently triggering the remedial procedures established under the excessive delays framework. This extension is consistent with the Fund's legal framework: while bilateral surveillance is mandatory for the Fund and its membership, the Articles of Agreement do not establish any specific frequency for Article IV consultations. The relevant deadlines are established by the Board and expressed in terms of an expectation rather than a firm obligation.

EXTENSION OF CONSULTATION CYCLES

7. To deal with the exceptional circumstances presented by the 2020 COVID-19 pandemic, Management has implemented a temporary postponement of staff work on Article IV consultations and mandatory FSAs.¹² This measure is in effect for all Article IV consultations and mandatory FSAs with some exceptions:

- *Near-complete FSAs.* In cases where the FSA mission work has concluded and the Aide Memoires are currently with the respective country authorities, the authorities have expressed their preference to complete the FSA broadly in line with the original timetables. Given that FSAs focus on tail risks and issues such as contingency planning, crisis preparedness, and crisis management, staff considers that completing these FSAs would be valuable. In the light of recent events, staff proposes to provide revised text in appropriate sections of the report to the authorities when resources allow. After receiving comments, the next step would then be to draft the Financial Sector Stability Assessment, building largely on the revised Aide-Memoires. The Board meeting to discuss the report may occur separately from the Article IVs (and possibly on a lapse-of-time basis) since FSAs' focus on policy frameworks, including crisis management, makes them more robust to ongoing changes in the global environment.
- *Countries for which the completion of the Article IV consultation is a pre-requisite for a the FCL/PLL request or review, or the Executive Board's "extension of a SLL offer".* This stems from the requirement that a member's most recent Article IV consultation show a "very positive assessment" of policies (in the case of an FCL/SLL) and a "generally positive assessment" of policies (in the case of a PLL) in order to qualify for the relevant arrangement or, where applicable, complete a review.^{13 14} Qualification for the arrangement may therefore hinge on the completion of the Article IV consultation.

8. In order to ensure this postponement has no adverse implications for members' compliance with their obligations, it is proposed that Article IV consultation deadlines for all members be extended by six months. This extension will allow additional time for member countries and the Fund to conduct Article IV consultations, given the need to refocus priorities toward responding to the unfolding crisis. It will also help avoid a situation where members with approaching deadlines would fall into excessive delays, thereby triggering the remedial procedures established under the excessive delays' framework. This extension would be factored into the

¹² In practice, the postponement (and any exceptions) will also apply to voluntary FSAPs.

¹³ FCL: Decision No. 14283-(09/29), as amended; and PLL: Decision No. 15017-(11/112), as amended.

¹⁴ The FCL/SLL and PLL decisions refer to a member's "most recent" Article IV consultation. While it would be legally feasible to use the assessment of an ~~earlier~~ Article IV consultation that significantly predates the review or request, such an assessment will likely be out of date due to the rapidly changing situation and, as such, not adequate for assessing the country's FCL/PLL/SLL qualification.