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FURTHER EXTENSION OF CONSULTATION CYCLES DUE TO COVID-19 PANDEMIC, AND SUSPENSION OF FRAMEWORK TO ADDRESS EXCESSIVE DELAYS IN ARTICLE IV CONSULTATIONS AND MANDATORY FINANCIAL STABILITY ASSESSMENTS

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CONTENTS

CONTEXT _____ 2

APPENDIX

I. List of IMF Member Countries with Delays in Completion of Article IV Consultations or Mandatory Financial Stability Assessments over 18 Months _____ 6

CONTEXT

1. Notwithstanding the ongoing intensive policy dialogue with the membership during the COVID-19 pandemic, there is growing need for resuming Article IV consultations and mandatory Financial Stability Assessments (FSAs). Although staff's work on Article IV consultations and FSAs has been suspended to focus on emergency financing to a large share of the membership, Fund staff has remained intensively engaged in monitoring developments and discussing policy priorities with authorities. The crisis is global in nature but unfolding at different stages across the membership, with some countries still fully absorbed in crisis management while others are beginning to ease containment policies. In this context, resuming Article IV consultations and mandatory FSAs would further deepen engagement on issues such as crisis management policies, the implications of relaxing containment measures, and drawing early cross-country lessons and best practices from the crisis response and reopening and recovery policies.

2. However, the resumption of Article IV consultations over the coming months will need to be gradual, remain focused on the crisis and related challenges, and be undertaken flexibly. The pervasive yet uneven impact of the COVID-19 crisis implies that more time will be needed to fully normalize surveillance work. Further, surveillance should be focused on the fallout from the crisis, and bilateral engagements will need to be flexible to adapt to a rapidly evolving context, reflecting the considerable uncertainty over the pace and path of the recovery. Surveillance will necessarily be focused on crisis-related priorities such as the immediate policy response and policies to prepare for downside scenarios (e.g., multiple waves of the pandemic), policies for restoring stability and limiting the scarring effects of the crisis, and for laying the groundwork for a sustainable and resilient economic recovery. It will also be an opportunity to assess Capacity Development (CD) priorities and strategies, including timeliness of data provision for policymaking, for individual countries in light of the crisis.

3. Staff recommends a further extension of consultation cycles to accommodate the gradual nature of the restart. Recognizing the constraints of the pandemic, and to ensure no adverse implications for members' compliance with their obligations to consult with the Fund, on April 22, 2020, the Board extended by six months the expected consultation deadlines for upcoming Article IV consultations and mandatory FSAs, as well as deadlines for discussions with currency unions.^{1, 2} The gradual resumption in full surveillance activities over the coming months, and the remaining uncertainties, imply that it will still not be possible for some time to complete previously scheduled Article IV consultations and mandatory FSAs for many members, and that discussions with currency unions may also not be possible. Thus, this paper proposes the following:

¹ See *Extension of Consultation Cycles Due to Covid-19 Pandemic*, Policy Paper No. 20/027, Decisions 16767 and 16768. Members continue to have an obligation to consult with the Fund upon request on its exchange rate and other economic and financial policies, and, where relevant, to consult with the Fund in the context of multilateral surveillance. Members will also continue to have the obligation to provide the Fund with the information that is necessary for its operations, including surveillance, subject to capacity constraints. The extension also suspended the accumulation of further delays for members with past due consultation deadlines.

² In practice, voluntary FSAs under the Financial Sector Assessment Program will be delayed as well.

- The Board further extend by six months the expected deadlines for upcoming Article IV consultations and for discussions with the currency unions, including the suspension of the accumulation of delays for members with past-due consultation deadlines (*Proposed Decisions 1 and 2*).
- The Board further extend the expected deadline for mandatory FSAs by six months (*Proposed Decision 3*).³ Due to capacity constraints regarding the number of mandatory FSAs that can be completed each year, this extension will have a cascading effect, requiring the deadlines for the current round of mandatory FSAs to be extended by one year.

4. Staff also recommends that the application of the framework to address excessive delays in the completion of Article IV consultations and mandatory FSAs be temporarily suspended. While the expected deadlines for completing Article IV consultations and mandatory FSAs have been extended, members whose consultations are already overdue currently continue to be subject to the framework on excessively delayed consultations, which requires, *inter alia*, periodic notifications to members, informally briefing the Board on economic developments in delayed members, and publishing the semi-annual lists of members with excessively delayed consultations.⁴ Moreover, staff circulates to the Board at the end of each year an annual report on delayed consultations. Given the suspension in the calculation of delays, implementing the framework would be of limited value. Accordingly, this paper proposes that the Board adopt a decision to suspend through April 22, 2021 the application of the framework for delayed Article IV consultations and mandatory FSAs (*Proposed Decision 4*) and a decision to suspend the circulation of the annual report for 2020 (*Proposed Decision 5*). However, staff will seek to continue to brief the Board on relevant economic developments in countries for which consultations are excessively delayed prior to April 22, 2020. The list of member countries with Delays in Completion of Article IV Consultations or Mandatory Financial Stability Assessments over 18 Months can be found in Appendix I.

³ The decision on the frequency of mandatory FSAs is framed in terms of the expected deadline for Board discussion of the Financial System Stability Assessment Report (FSSA) that summarizes the key findings and results of the FSA.

⁴ Decision No. 15106, as amended. The semi-annual lists, which are published on the Fund's external website, list members with Article IV consultations and mandatory FSAs delayed by over 18 months.

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. Temporary Extension of Consultation Cycles for Article IV Consultations

1. In Decision No. 16767, adopted April 22, 2020, the reference to “six months” shall be amended to “twelve months.”

Decision 2. Temporary Extension of Expected Deadlines for Discussions with Regional Institutions Responsible for Common Policies in Currency Unions

1. In paragraph 1 of Decision No. 16768, adopted April 22, 2020, the reference to “six months” shall be amended to “twelve months”.
2. In paragraph 2 of Decision No. 16768, adopted April 22, 2020, the reference to “six months” shall be amended to “twelve months”.

Decision 3. Temporary Extension of Cycle for Mandatory Financial Stability Assessments under the Financial Sector Assessment Program

1. Notwithstanding the provisions of paragraph 8 of the Annex to Decision No. 15495-(13/111) adopted on December 6, 2013, it is expected that the upcoming FSSA for a member with a systemically important financial sector will be discussed by the Executive Board by no later than the first deadline for completion of an Article IV consultation with that member that follows the sixth anniversary of the date of completion of the previous Executive Board discussion of the FSSA respecting that member or, in the case of the financial sector of a territory of a member, the first deadline for completion of an Article IV consultation discussion with respect to that territory by the Executive Board that follows the sixth anniversary of the date of completion of the previous Executive Board discussion of the FSSA respecting the financial sector of that territory.

Decision 4. Temporary Suspension of Framework to Address Excessive Delays in the Completion of Article IV Consultations

1. The Fund hereby suspends until April 22, 2021 the application of Decision No. 15106-(12/21), as amended, on the Proposed Steps to Address Excessive Delays in the Completion of Article IV Consultations.

Decision 5: Temporary Suspension of Annual Report on Framework to Address Excessive Delays in the Completion of Article IV Consultations

1. The Fund hereby suspends for 2020 the issuance of the Annual Report on Delayed Article IV consultations mandated by Decision No. 15765-(15/39).

Appendix I. List of IMF Member Countries with Delays in Completion of Article IV Consultations or Mandatory Financial Stability Assessments over 18 Months

In accordance with Executive Board [Decision No. 15106-\(12/21\)](#), the Fund will publish on its external website a list of member countries whose Article IV consultations or mandatory Financial Stability Assessments have been delayed by more than 18 months, as of June 15, 2020, since the expected deadline for conclusion.

IMF Member Countries with Delays in Completion of Article IV Consultations over 18 Months 1/				
Member	Completion Date of Last Consultation	Stipulated Date for Completion of Next Consultation ^{2/}	Main Reason for Delay ^{3/}	Delay in Completion of Consultation (in months) ^{4/}
Venezuela	9/13/2004	9/13/2005	Political/security situation	172
Syrian Arab Republic	2/26/2010	2/26/2011	Political/security situation	106
Libya	5/17/2013	5/17/2014	Political/security situation	68
Yemen	9/2/2014	12/2/2015	Political/security situation	52
Burundi	8/25/2014	1/15/2016	No agreement on mission dates/modalities	51
Equatorial Guinea	8/29/2016	8/29/2017	Program-related issues	28
Guinea	7/22/2016	7/22/2018	Program-related issues	21

Source: IMF staff.

^{1/} Due to the onset of the COVID-19 pandemic, the information presented in this table are as of April 22, 2020, the date of the Board decisions corresponding to SM/20/027 which paused the accumulation of delays for members with past due consultation deadlines. As of this date, there were no mandatory Financial Sector Assessments delayed by over 18 months.

^{2/} Excluding the three-month grace period, where applicable, for member countries without a Fund arrangement, PCI, or PSI.

^{3/} There can be multiple factors in some cases.

^{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 April 22, 2020 – see footnote 1.