

INTERNATIONAL MONETARY FUND

Proposed Decision on Article IV Consultation Cycles

Prepared by the Legal and Strategy, Policy, and Review Departments

Approved by Sean Hagan and Reza Moghadam

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1. The attached proposed Decision seeks to implement the staff's proposals related to Article IV consultation cycles in [Review of the Fund's Mandate—Follow-Up on Modernizing Surveillance](#), which were endorsed in principle by the Executive Board on September 1, 2010. The goal is to provide for greater flexibility in consultation cycles and simplify the rules governing consultation cycles for members under a Fund arrangement or Policy Support Instrument (PSI). The draft Decision also consolidates into one single document all the rules applicable to Article IV consultation cycles.¹
2. Specifically, the proposed Decision:
 - Reaffirms the provision of the [2007 Surveillance Decision](#) that, in “principle”, Article IV consultations will take place annually;²
 - Reaffirms that members cannot be placed on a consultation that is longer than the standard twelve-months (“extended cycles”) in certain circumstances, in particular, if they are of systemic or regional importance, are perceived to be at risk, or face pressing policy issues of broad interest to the Fund's membership;³
 - Raises from 25 percent to 200 percent of quota the limit of outstanding Fund credit above which a member cannot be placed on an extended cycle, in line with the threshold for post-program monitoring;

¹ At present the rules governing consultation cycles for members are set out in several Board decisions and summings up of Executive Board discussions. The proposed Decision, would therefore replace [Decision 12794-\(02/76\)](#).

² 2007 Decision on Bilateral Surveillance over Members' Policies, [Decision No 13919-\(07/51\)](#), Paragraph 17.

³ Under current practice, all members placed on extended cycles are placed on a 24-month cycle, with the exception of one member that is on an 18-month cycle.

- Applies the 24-month cycle to all members with an “on-track” arrangement (other than a Flexible Credit Line (FCL) or Precautionary Credit Line (PCL) arrangement) or PSI, dropping the stricter rule that requires such members to complete their next consultation sooner than 24 months if their most recent Article IV consultation was completed 6 months or more before the approval of the arrangement or PSI. In cases where a program review under an arrangement is not completed by the date specified in the arrangement, the current requirements (implying a shortening of the cycle in most cases) would continue to apply;⁴
 - Eliminates the rule that automatically places a member on the standard 12-month cycle at the end of a Fund arrangement (other than FCL or PCL) or PSI.⁵ Under the new Decision, the member could either stay on the cycle it is on when the arrangement or PSI ends, or be placed on a different cycle by a decision of the Executive Board. Such a decision would be based on the criteria for eligibility for extended cycles that apply to all members. It could be taken at the time of the last program or PSI review, or on an ad-hoc basis if need be; and,
 - Provides that members that are granted a FCL or a PCL arrangement would automatically be placed on the standard 12-month cycle.⁶ For members that, prior to the approval of an arrangement were on a cycle longer than the standard 12 months, the first Article IV consultation following the approval of the arrangement would be expected to be completed by the later of (a) 6 months following the approval of the arrangement, or (b) 12 months plus a grace period of 3 months, after the date of completion of the previous Article IV consultation. This approach would be consistent with the fact that qualification for FCL and PCL is based on the Executive Board’s assessment of members’ policies in the context of most recent Article IV consultation. At the end of an FCL or a PCL arrangement, the member would remain on the 12-month cycle unless the Executive Board decided otherwise.
3. The proposed decision would set out the following framework for consultation cycles:

- Article IV consultations would, in principle, take place annually.

⁴ See paragraph 2(a) of the proposed Decision.

⁵ An arrangement can end through completion—i.e., at the end of the arrangement all amounts are drawn —, or if it is cancelled by the member, or expires with undrawn amounts. A PSI ends when all reviews are completed, or it expires with uncompleted reviews, or is cancelled by the member, or is terminated on the grounds set forth in the [PSI Decision No 13561-\(05/85\)](#).

⁶ This would be consistent with the practice in the first three FCL cases: the Executive Board has not applied the rules set out in the 2002 Decision on Consultation Cycles that automatically places a member that is granted a Fund arrangement on the 24-month cycle to the FCL arrangements. ([Decision No. 12794-\(02/76\)](#))

- The Executive Board could decide to place a member that is not under a Fund arrangement or a PSI on an extended cycle, unless the member: (i) is of systemic or regional importance; (ii) is perceived to be at some risk because of policy imbalances or exogenous developments, or is facing pressing policy issues of broad interest to the Fund membership; or (iii) has outstanding Fund credit exceeding 200 percent of quota. Consistent with current practice, the Fund would only place a member on an extended cycle with its consent and after consulting with its Executive Director.
- Members that are granted a Fund arrangement or a PSI, with the exception of FCL or PCL arrangements (see below), would automatically be placed on a 24-month consultation cycle. In cases where a program review under an arrangement is not completed on time, the current requirements (implying a shortening of the cycle in most cases) would continue to apply.
- Except for FCL or PCL arrangements, members that have completed a Fund arrangement or a PSI (i.e., the arrangement or PSI ended “on track”) could remain on the 24-month cycle if they do not meet any of the criteria described in the second bullet above. The Executive Board may decide, at the time of the final review under the arrangement or the PSI, to shorten the cycle to 12-months taking into account the above criteria. If an arrangement expires with undrawn amounts or is cancelled by the member or if a PSI expires with uncompleted reviews, or is terminated or is cancelled by the member, the member would remain on the cycle it was on, unless the Executive Board determined that a different cycle should apply (which could be done through an ad-hoc decision that the Board could consider on a lapse-of-time basis).⁷
- Members that are granted an FCL or a PCL arrangement would automatically be placed on the standard 12-month consultation cycle. For members that, prior to the approval of an arrangement were on a cycle longer than the standard 12 months, the first Article IV consultation following the approval of the arrangement would be expected to be completed by the later of (a) 6 months following the approval of the arrangement, or (b) 12 months plus a grace period of 3 months, after the date of completion of the previous Article IV consultation. At the end of an FCL or a PCL arrangement, that member would remain on the 12-month cycle, unless the Executive Board determined that a different cycle should apply (as is the case with other arrangements or PSI, this could be done through an ad-hoc decision that the Board could consider on a lapse-of-time basis).
- Consistent with current practice, the periodicity and “deadlines” for the completion of individual consultations with members would be expressed in terms of an “expectation” rather than an obligation. Except where a member is automatically

⁷ Such a decision could be adopted by the Executive Board based on a proposal by management made upon cancellation (termination) of the arrangement or PSI.

placed on the 12- or 24-month cycle in the context of a Fund arrangement or PSI, the consultation cycle for members would be established by the Executive Board at the conclusion of each Article IV consultation, at the time of the last program or PSI review, or on an ad-hoc basis.

- The 3-month grace period would continue to apply only to consultations that take place on the standard 12-month cycle.⁸

4. While the decision would become effective upon its adoption by the Board, it would not give rise to any immediate change in the expected timing for the conclusion of the upcoming Article IV consultations for members. Consultation cycles for individual members would be established on the basis of the new framework at the time of completion of their present Article IV consultations or, as the case may be, in the context of the use of Fund resources, or a PSI. The provisions that automatically place members on the 24-month cycle (or the 12-month cycle for FCL or PCL arrangements) would apply to members that are granted new Fund arrangements or a PSI at the time they are approved.

⁸ Where a member is placed on the standard cycle, it would be expected that the consultation will be completed within 15 months from the previous consultation.

Proposed Decision

The following draft decision is proposed for adoption by a majority of votes cast:

Article IV Consultation Cycles

This Decision is adopted pursuant to Article IV, Sections 3 (a) and (b) of the Fund's Articles. It establishes a framework for the periodicity of consultations between the Fund and each member on the member's policies under Article IV, Section 1.

1. Except as provided for in paragraphs 2 and 3 below, consultations with members shall be conducted in accordance with the principles set out in this paragraph.

In principle, Article IV consultations with members will take place annually. Article IV consultations that take place on the standard twelve-month cycle will be subject to a grace period of 3 months and, accordingly, will be expected to be completed within 15 months of the date of the completion of the most recent consultation.

The Fund may decide to place a member on a consultation cycle that is longer than 12 months but, in any event, is not longer than 24 months (hereinafter an "extended cycle") only if the member does not meet any of the following criteria:

(a) the member is of systemic or regional importance;

- (b) the member is perceived to be at some risk because of policy imbalances or particular threats from exogenous developments, or the member is facing pressing policy issues of broad interest to the Fund membership; or
- (c) the member has outstanding credit to the Fund under all facilities above two hundred percent (200%) of the member's quota.

The Fund will place a member on an extended cycle only after consulting with the Executive Director for the member and obtaining the member's consent.

2. Whenever a Fund arrangement (other than an arrangement under the Flexible Credit Line (FCL) or Precautionary Credit Line (PCL)) or a Policy Support Instrument (PSI) is approved for a member, that member shall automatically be placed on a 24-month consultation cycle. Article IV consultations with such members shall be conducted in accordance with the procedures specified below:

- (a) Article IV consultations with such a member will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member. The consultation cycle will be shortened where a program review under an arrangement for the member is not completed by the date for completion specified in the arrangement: in these circumstances the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date specified in the arrangement for completion of the review, and (ii) 12

months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation, provided, however, that, where the relevant program review is completed before the later of the dates specified in (i) and (ii) above, the next Article IV consultation will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member.

(b) A member that has completed an arrangement (other than an FCL or PCL arrangement) by drawing all amounts, or a PSI by completing all reviews shall remain on the cycle determined pursuant to paragraph 2(a) above, unless at the time of the final review under the arrangement or the PSI, the Executive Board determines, based on the criteria specified in paragraph 1, that a different cycle shall apply. Where the arrangement or PSI is cancelled by the member, or the arrangement expires with undrawn amounts or the PSI expires with uncompleted reviews or is terminated, the member concerned shall remain on the cycle determined pursuant to paragraph 2(a) above, unless the Executive Board determines, based on the criteria specified in paragraph 1 that a different cycle will apply.

3. Whenever an FCL or a PCL arrangement is approved for a member, that member will automatically be placed on a 12-month consultation cycle. Article IV consultations with such members will be conducted in accordance with the procedures specified below:

(a) if, prior to the approval of the FCL or PCL arrangement, the member was on an extended cycle, the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date of approval of

the arrangement, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation;

(b) if an FCL or a PCL arrangement is completed by drawing all amounts, expires with undrawn amounts or is cancelled by the member, that member will remain on the standard 12-month cycle, unless the Executive Board determines that a different cycle will apply.

4. At the conclusion of each Article IV consultation with a member, the Fund will specify the cycle that will apply to the next Article IV consultation with the member.
5. Decision No. 12794-(02/76), adopted July 15, 2002, as amended, is hereby repealed.