INTERNATIONAL MONETARY FUND

Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision: Surveillance in a Program Environment

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(In consultation with other departments)

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Contents Page

Text Tables

Boxes

Appendices

Appendix Tables

I. Introduction

1. This paper focuses on surveillance in a program or "near" program environment. Specifically, Chapter II examines the conduct of Article IV consultations in countries with Fund-supported programs in light of recent concerns about the lack of independence of surveillance in these countries, and the proposal to place program countries on a 24-month consultation cycle—put forward in the context of the initiative to reduce work pressures. Against this background, the chapter addresses a number of issues that arise for surveillance from the special circumstances of the program context and discusses how surveillance in program countries can be strengthened.

2. Chapter III examines the recent experience with staff-monitored programs (SMPs), which provide a framework for the Fund to accommodate members' requests for monitoring of their economic policies beyond the Article IV process, typically to build a track record toward a Fund-supported program or to convey signals to official and/or private creditors. The chapter addresses concerns that have been raised about the "quality control" of these monitoring arrangements, which do not have to meet the standards of upper-credit tranche conditionality and do not carry Fund endorsement, and discusses the implications of these concerns for the use of SMPs as signaling devices.

3. Finally, Chapter IV reviews the recent experience with post-program monitoring, which was introduced in 2000 for countries with substantial Fund credit outstanding following the expiration of a Fund arrangement.

II. Surveillance in Program Countries

A. Introduction

4. Surveillance in countries with Fund-supported programs has received little special attention in past reviews of Fund surveillance. The right and obligation to hold consultations with the Fund under Article IV has always been understood to apply to all members, irrespective of their program status, and the role of such consultation discussions has implicitly been seen as clearly distinct from program-related discussions, even though the nature of this distinction has never been explicitly specified. Given this consensus, Board discussions that touched on Article IV consultations in program countries have focused on procedural issues, notably consultation cycles and the question of combining UFR and Article IV discussions and reports.

5. Recently, however, questions about the role of surveillance in countries with Fund-supported programs have been raised from different sides. On the one hand, it has been suggested that given frequent scrutiny by the Board in the context of program reviews, it may be worth reconsidering the established principle of annual Article IV consultations in these countries with a view to moving them to a 24-month cycle. On the other hand, it has been argued that the effectiveness of Fund surveillance in program countries may be compromised by program-related concerns—for example, the desire to agree on a program or to complete a review. To address this problem, it has been proposed that surveillance should be made more

effective by giving it greater independence and separating it more clearly from the Fund's decisions on lending operations.[1]

6. Against this background, this chapter discusses surveillance in countries with Fund-supported programs. Specifically, the chapter examines Article IV consultations in these countries during 2000-01, and compares them with consultations in non-program countries. In light of this examination, the role of surveillance in program countries as well as proposals to make it both more effective and more efficient are discussed**.** The chapter proceeds as follows. First, by way of background, the views expressed in the past by the Board on surveillance in a program context are summarized. Second, the results of the analysis of surveillance in program countries during 2000-01 are presented. Third, possible approaches to improving the Fund's surveillance in a program context are discussed.

B. Surveillance in Program Countries: the Executive Board's Views

7. While the Executive Board has never explicitly addressed the role of surveillance in program countries, it has implicitly affirmed on a number of occasions that surveillance has an important and distinct role to play in these countries. For instance, notwithstanding the existence of frequent (in some cases monthly) program reviews, the Board has consistently taken the view that countries with Fund-supported programs should have annual Article IV consultations and has maintained this view even when concerns about resource constraints prompted a move to longer consultation cycles for many other countries (Box 1). The external observers that conducted an evaluation of the Fund's surveillance in 1999 appear to have shared this view. While they recommended a reduction in the resources devoted to the surveillance of small and medium-sized industrial countries, through, inter alia, longer intervals between Article IV consultations, they did not question the practice of annual consultations for countries with Fund–supported programs. [2]

[1] See the interview with U.K. Chancellor Brown in the Financial Times (11/15/2001), and his speech to the Federal Reserve Bank of New York on November 16, 2001.

[2] *External Evaluation of Fund Surveillance*, IMF Website, September 14, 1999.

Box 1. The Executive Board's Views on Consultation Cycles in Program Countries

While the Surveillance Decision of 1977 established the principle of annual Article IV consultations, concerns about the resource costs of the Fund's surveillance activities have repeatedly prompted efforts to move some members to longer consultation cycles. Various criteria have been used to decide whether a country should remain on an annual cycle, including the systemic importance of the country's economy and concerns about external viability. In these discussions, the Board has consistently reaffirmed the principle of annual consultations for countries with Fund-supported programs.

- Following a discussion on consultation cycles in 1982 in which Directors took the view that members using Fund resources should not be considered for a longer cycle, the Board in 1983 adopted guidelines on the frequency of Article IV consultations. The broad criteria for determining the group of countries on a strict annual cycle were: economies having a substantial impact on other countries, countries where there are substantial doubts about medium-term viability, and members with Fund-supported programs. In order to underline the importance of annual consultations for program countries, the Board subsequently emphasized that consultations should not be delayed on account of discussions on the use of Fund resources and that, where the consultation was overdue, it should consider the Article IV consultation before turning to a request for use of Fund resources in those cases.

- In 1987, faced with a sharp increase in the workload associated with Article IV consultations, the Board adopted the bicyclic procedure, but retained the l983 frequency guidelines. Program countries were thus expected to remain on a strict annual cycle. When in 1991 all countries on the standard annual cycle were temporarily shifted to the bicyclic procedure to cope with the demands placed on the Fund by the collapse of the FSU, it was decided to continue to hold annual consultations with the seven largest industrial countries and with program countries (including countries where substantive discussions were underway on a program to be supported by Fund resources as well as arrears cases).

- Following the termination of the bicyclic procedure in 1993, and the reversion to annual consultations for all but a few countries, the Board considered the option of longer consultation cycles again in 1997. While agreeing that greater use should be made of that option, the Board endorsed a set of criteria to determine whether it should be used for a particular member. Three out of the five criteria for keeping countries on an annual consultation cycle—and not to allow for a longer interval between consultations—are related to a member's use of Fund resources, namely (i) the existence of a Fund-supported program; (ii) the completion of a Fund arrangement in the past year; and (iii) an outstanding Fund credit above 25 percent of quota.[1]

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[1] The other two criteria are that: (i) the member is of systemic or regional importance; and (ii) there is an identification of risk because of the member's policy imbalances or exogenous developments, or of pressing policy issues of broad interest to the Fund membership.

8. In 2001, as part of the initiative to reduce work pressures within the Fund, a tentative proposal was made to move all program countries to a 24-month Article IV consultation cycle. However, in discussing the proposed change, a number of Directors expressed concerns about the implications of longer consultation cycles for program countries, especially when Fund-supported programs go off track. It was thus decided to postpone consideration of the proposal until the biennial surveillance review, so as to allow Directors to consider the matter in a broader framework, with more detailed background information.

9. Another issue related to surveillance in program countries that was explicitly addressed by the Board is the combination of Article IV and UFR discussions and reports. This practice emerged in the late 1970s and was discussed during the 1982 and 1983 annual surveillance reviews (Box 2).[3] While generally welcoming the practice, Directors emphasized the need to ensure a proper balance between program and surveillance issues, noting the broader perspective of the latter.[4] Combined Article IV/UFR became subsequently more or less common practice, and in 1997, the Staff Operational Guidance Note noted that, for countries using Fund resources, consultation reports should be folded into reports prepared in connection with the use of Fund resources to the extent possible, where this can be achieved without significantly delaying the conclusion of the consultation.

10. Although the Board has emphasized on numerous occasions the importance of strengthening surveillance, and making it more effective and evenhanded, concerns about effectiveness and evenhandedness have never been specifically directed at the conduct of Article IV consultations with members using Fund resources. In fact, the widely held view has been that the Fund was much stricter in its oversight of the policies of deficit developing countries (including program countries), and that for surveillance to appear evenhanded, it must be seen to be effective with respect to the large industrial countries. This sentiment was reiterated in 1986, when surveillance was considered to be marred by a deep asymmetry, with program conditionality reinforcing surveillance in developing countries, while surveillance had little practical effect on the industrial countries that have a major impact on the world economy. These concerns about the lack of evenhandedness in the exercise of Fund surveillance were echoed on a number of subsequent occasions.

[3] The 1978 Article IV Consultation and Review under Extended Arrangement with the Philippines appears to be the first combined report to have been issued. It was followed by a combined Article IV/UFR report on Yugoslavia in 1979 and Pakistan in 1981.

[4] Later, in the context of the work to improve the Fund's transparency, it was noted that certain surveillance issues were not receiving the same attention in staff reports for Article IV consultations combined with UFR discussions than in stand-alone Article IV consultations.

Box 2. The Executive Board's Views on Combining Article IV and UFR Discussions

In the 1982 surveillance review, Executive Directors were favorably disposed toward combining Article IV consultation reports with program reviews provided such combined papers retain the best features of the two different papers. They commented, in particular, on the recent case of Pakistan, and encouraged staff to experiment with combined papers on a case-by-case basis. It was noted that the emphasis of combined reports needed to be balanced, and, in particular, that the more immediate issues related to the adjustment problem should not be allowed to overshadow the broader perspective of the Article IV consultation. Directors preferred, in principle, to have the Article IV consultations precede negotiations on, and Board consideration of, requests for use of Fund resources—especially when a long time had elapsed since the previous Article IV consultation with the member. It was thought that the guidance given to staff in the course of the Article IV consultation discussion in the Board could then be helpful in the conduct of negotiations with the member country. Several Directors believed that this was the ideal scheme, but added that it would not always be practical in view of countries' sometimes urgent needs for Fund resources. Generally, the Board felt that flexibility had to be employed in this regard. In concluding, the Board took the view that, in a number of cases, it may be a good idea to maintain the current practice of arranging the schedule of missions and discussions in such a way as to obtain maximum benefit from combining Article IV consultations with missions on the use of Fund resources.

The issue of the appropriateness of combining consultation missions with negotiations of the use of Fund resources was raised again in 1983 and 1984, against the background of a large number of requests for use of Fund resources. In 1983, while some Directors believed that combining consultations with requests for use of Fund resources should be the exception rather than the rule, a number of Directors considered that consultations could appropriately be combined with reviews of existing Fund programs. This latter view was endorsed in 1984 when staff was asked to continue to combine requests for use of Fund resources and periodic reviews with consultation reports in order to maintain the quality of consultation work at a time of heavy workload.

11. While the Executive Board has taken a view on the appropriate cycle of consultations in program countries and on the issue of combining Article IV and program discussions, it has never explicitly addressed the question of whether the program context poses special difficulties for surveillance. Specifically, it has not discussed to what extent the assumptions and policy strategy agreed under the program may constrain the surveillance exercise—a concern that has prompted recent calls for greater independence of Fund surveillance. The next section will examine this issue.

C. Implementation of Surveillance in Program Countries in 2000-01

Coverage of Article IV Consultations

Method of Analysis

12. In order to examine the implementation of Fund surveillance in a program context, staff reviewed and compared a sample of 2000-01 stand-alone Article IV reports and a

sample of combined Article IV/UFR reports.[5] The analysis was based on a questionnaire covering the main dimensions of an Article IV consultation report (Annex I). Specifically, the questionnaire asked whether a report included (i) a comprehensive and meaningful presentation of recent economic developments; (ii) a presentation of short-term prospects and a discussion of the risks to the outlook; (iii) a discussion of the medium-term balance of payments outlook and risks; (iv) an assessment of capital account vulnerabilities; (v) a well integrated discussion of exchange rate policy and other core macroeconomic policies; (vi) an identification and discussion of major structural issues; (vii) an assessment of possible financial sector problems; (viii) a clear and candid account of the policy dialogue between staff and the authorities; and, finally, (ix) an assessment of data adequacy and possible data problems.

13. The review did not use stand-alone Article IV reports as simple benchmarks for the assessment of combined Article IV/UFR reports. Rather, efforts were made to establish absolute benchmarks for both stand-alone and combined reports by listing criteria for possible shortcomings in coverage. For instance, exclusive or nearly exclusive focus on program-related aspects, i.e. program targets, performance criteria or benchmarks, was one of these criteria. Nevertheless, evaluating Article IV consultation reports on the basis of such criteria inevitably involves a degree of subjectivity that may have influenced the results. Even so, given the relatively large sample and the variety of countries covered by the exercise, the results permit a number of general conclusions about the implementation of surveillance in a program context.

[5] Specifically, 50 stand-alone Article IV reports and 41 reports combining an Article IV consultation with a program request or review were examined. The samples covered low income, middle income, transition, and emerging market economies (see Annex II). Both industrial countries and small states were excluded from the analysis as these countries have not made use of Fund resources during the period considered.

Key Results

14. An important conclusion from the review is that in almost all of the specific areas examined, and for all categories of countries reviewed, combined reports fell short of the depth and breadth of coverage of stand-alone reports. However, before discussing the differences between stand-alone and combined Article IV reports in greater detail, two general observations are in place. First, many stand-alone Article IV reports are by no means perfect: in a number of areas they clearly fall short of what had been defined as "adequate coverage" (Table 1). Second, not all combined Article IV/UFR reports display weaknesses in the areas identified below; some do cover these areas quite well (Box 3). Moreover, combined reports have some specific strengths: they tend to be more detailed in their analysis, more specific in their recommendations, and, all in all, display more technical expertise and greater awareness of technical assistance recommendations than stand-alone reports.

15. The differences between stand-alone Article IV reports and combined Article IV/UFR reports do not lie primarily in the comprehensiveness of coverage. Combined reports typically touch on the important elements of economic developments and policies. Rather the main differences lie in the way these issues are addressed.

16. *Recent economic developments.* Combined reports tend to be guided chiefly by program targets in the assessment of recent economic developments; the logic and coherence of the programs is taken as given and thus the reports are generally less effective in integrating the various elements of economic developments into a fresh and cogent analysis. Indeed the program framework is usually used as an organizing principle, and, frequently, as a substitute for a storyline. This problem occurs mainly in relatively less advanced countries, i.e., countries without access to global financial markets. In reports for more advanced countries with market access, recent economic developments are generally well covered.

17. *Short-term economic outlook.* While there is room for improvement in this area in both stand-alone and combined reports, inadequate coverage is more common in combined Article IV/UFR reports. In particular, these reports often limit the discussion of the short-term outlook to a presentation of program targets, which may be compared with previous targets. A frank discussion of the risks to the outlook, including an account of possible differences in the assessments of the authorities and the staff, is often missing.

Table 1. Surveillance in Stand-Alone and Combined Article IV Reports, 2000-01 1/

	Non-Market Access Countries 2/	Market Access Countries 3/	All Countries
		(In percent of total) 4/	
Recent economic developments	77	100	88
Combined	63	100	78
Stand-alone	92	100	96
Short-term economic outlook	54	58	56
Combined	46	41	44
Stand-alone	63	69	66
Medium-term economic outlook	73	76	75
Combined	63	53	59
Stand-alone	83	92	88
Capital account vulnerability	…	51	…
Combined	…	47	…
Stand-alone	…	54	…
Exchange rate and macroeconomic policies	63	77	69
Combine	58	71	63
Stand-alone	67	81	74
Structural reforms	77	95	86
Combined	67	88	76
Stand-alone	87	100	94
Financial sector issues	67	70	68
Combined	63	65	63
Stand-alone	71	73	72
Policy dialogue	50	68	58
Combined	21	47	32
Stand-alone	79	81	80
Data issues	83	95	89
Combined	75	88	80
Stand-alone	92	100	96
		(Number of reports)	
Total	48	43	91
Combined	24	17	41
Stand-alone	24	26	50

Source: Policy Development and Review Department.

1/ Combined reports are Article IV reports combined with Use of Fund Resources (UFR) discussions.
2/ Low-income countries, middle-income countries, and transition countries with no market access (see Annex II).
3/ Transition economies with market access and emerging economies (see Annex II).
4/ Percentage of reports including a satisfactory coverage of the issue.

Box 3. Examples of Good Practices in the Coverage of Surveillance Issues in Combined Article IV/UFR Reports

The staff report for the 2000 Article IV Consultation with **Yemen**, which was combined with the request for the third annual arrangement under the PRGF and fourth review under the extended arrangement, provides an example of frank reporting on the dialogue between staff and the authorities in a program context. In particular, the areas of agreement and disagreement between staff and the authorities on the main macroeconomic issues are clearly delineated and the dissents highlighted. For instance:

- The mission expressed concern that the sharp increase in the 2000 budget for wages, defense, and current transfers and subsidies implied large expenditure commitments for the medium term, creating additional vulnerabilities for macroeconomic stability given the volatility of oil revenues.

- On foreign exchange intervention, the mission expressed strong concern that the past policy of one-sided intervention had contributed to a real appreciation that could weaken incentives for tradables production and thus diversification away from oil. The mission's view was that this could also lead to a public perception of a de facto commitment to a fixed exchange rate that could prove politically costly to change.

- Without hiding that parts of the program could have been more ambitious, the staff found that, overall, the authorities' efforts were sufficient to warrant support, as the completion of some substantial and difficult actions underscored the authorities' ownership of the program.

The combined staff report for the 2000 Article IV Consultation with **Brazil** and the sixth review under the stand-by arrangement provides an example of an attempt to discuss the risks to the outlook in a program context.

- The mission underlined that the medium-term balance of payments was subject to vulnerabilities and discussed alternative scenarios to gauge these vulnerabilities.

- In the staff appraisal, the staff noted that, given Brazil's high current account deficit, overall gross external financing requirements and external debt, as well as the still rather fragile nature of its regained market credibility, any substantial external shocks could have a strong detrimental impact on the country. If such shocks were to occur, they would require a prompt and forceful policy response, in particular a tightening of monetary and fiscal policies. It was further noted that failure to tighten the fiscal stance (i.e., restricting spending commitments below budgetary authorizations) in those circumstances would place an undue burden on monetary policy, significantly reducing the scope for a further decline in interest rates, with likely consequences for investment, and the public sector deficit and debt.

18. *Medium-term outlook and external vulnerabilities.* Combined reports tend to provide more limited assessments of medium-term external viability than stand-alone reports. About 40 percent of the combined reports (against 10 percent of the stand-alone reports) do not contain a candid assessment of the medium-term prospects and vulnerabilities, and often content themselves with a presentation of the medium-term (often rosy) scenario underlying

the program, without discussing sufficiently the downside risks to the outlook.[6] The difference is particularly striking for countries with market access, which typically have stand-by arrangements with a relatively short time horizon. In low-income countries with PRGF arrangements, the longer program horizon may account for a somewhat better coverage of medium-term prospects. Short-term capital account vulnerabilities—a key issue in countries with market access—appear to have received limited coverage, both in combined and stand-alone reports.

19. *Exchange rates and macroeconomic policies*. In many combined reports, the discussion of macroeconomic policies focuses primarily on program targets. As a result, a number of combined reports, particularly for some middle-income and transition economies with relatively rigid exchange rate regimes, lack a discussion that integrates an assessment of the exchange rate and the exchange rate regime with other macroeconomic policies. However, even among stand-alone reports, a proper integration of these issues is far from universal.

20. *Structural policies*. In the case of structural policies, the focus on program objectives and benchmarks in combined reports generally means that the broader rationale for addressing certain structural issues is not explicitly discussed; coverage of these issues is assumed to be self-explanatory. This is particularly evident in low-income countries with programs covering a relatively large number of structural reforms. To be sure, the rationale for structural measures is generally provided in the original program documentation, but structural policies are not assessed in any depth in the Article IV context.

21. *Financial sector issues*. Differences in the coverage of financial sector issues appear to be related less to the program status than to the presence of an FSAP. When countries that have benefited from an FSAP are excluded from the sample, most reports provide only a limited assessment of financial sector conditions.

22. *Policy dialogue*. Perhaps the most striking difference between stand-alone and combined Article IV reports is the absence in many combined reports of an account of a genuine policy dialogue between staff and the authorities during the Article IV consultation mission. Less than a third of the combined reports included such an account, compared with almost 90 percent of the stand-alone reports. Many combined reports restrict references to policy discussions with the authorities to program-related considerations. As a result, stand-alone reports are almost always more candid in presenting the discussion between staff and the authorities and clarifying areas of consensus and dissent; in fact, areas of dissent are usually hard to come by in combined reports. Of course, insofar as a Fund-supported

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[6] In the context of the lessons to be drawn from the Asian crisis, it was noted that "optimistic projections appear to have reflected the need to agree with the authorities on a common set of growth assumptions together with the desire to avoid undermining confidence further." See *IMF-Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment,* T. Lane et al., Occasional Paper No. 178, March 1999.

program represents a meeting of minds between the staff and the authorities on the policy initiatives, it is, perhaps, not surprising that there is less dialogue on policy options. Nevertheless, the differences are too stark to reflect only this factor.

23. Overall, the weaknesses and strengths of the combined reports can largely be understood in light of the requirements and modalities of a program. Frequent visits and careful monitoring of policy implementation usually result in stronger technical expertise and greater attention to detail, but in the process the bigger picture may become blurred or get lost entirely. Also, the commitment to the program and its policy agenda readily turns the program into a framework of reference that, while useful, also tends to supplant a fundamental reexamination of economic developments and policies. Of course such a fundamental reexamination could call into question the program strategy. Moreover, even if an in-depth reassessment of economic developments and policies in the context of an Article IV consultation leads to the conclusion that the program strategy remains appropriate, there is still a risk such a frank discussion will reopen the debate on certain aspects of the program that had been settled earlier in complicated and prolonged negotiations. These various constraints are exacerbated by the heavy workload involved in program countries; there may simply not be sufficient time for some missions to address surveillance adequately.

24. The shortcomings of combined Article IV/UFR reports reflect the fact that conducting effective surveillance in program countries is a difficult task. Besides the time constraints on missions, there is a basic difficulty in reassessing the member country's main economic challenges and appropriate policy responses once a policy strategy is imbedded in an ongoing program. This conflict may be heightened by the possible publication of the staff report, which may have more significant economic and political consequences in a program context than in the context of an Article IV consultation with a non-program country. In particular, presenting a candid account of possible risks to the outlook or differences of views between staff and the authorities may elicit strong market reactions. While the Fund's publication policy allows for deletions of market sensitive information, in some program cases, most of the information provided in a candid Article IV report may fall into this category.[7]

Frequency of Article IV Consultations

25. The constraints placed on surveillance by the exigencies of the program environment have frequently led to delays in Article IV consultations. About half of all the notifications of delay issued during 2000-01 were related to the use of Fund resources (e.g., ongoing discussions on UFR, or combining a consultation with a program request or program review), well ahead of other considerations, such as change in government, security situation, or conflicts in the schedule of Board meetings. Thus, although all program countries are expected to have annual Article IV consultations, the interval between two consultations has

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[7] See *IMF Reviews the Experience with the Publication of Staff Reports and Takes Decisions to Enhance the Transparency of the IMF's operations and policies of its members*, PIN No. 00/81, September 20, 2000.

risen steadily in the past 5 years to nearly 17 months for emerging market countries with Fund-supported programs, and 19 months for non-transition developing countries with programs in 2001.[8] As a result, the effective consultation cycle for program countries was considerably longer than the annual cycle recommended for these countries by the Board on various occasions.[9]

D. Strengthening Article IV Surveillance in Program Countries

26. The preceding review revealed a number of specific differences between surveillance in program and non-program countries. In particular, judging by the reports on combined Article IV/UFR discussions, which are now almost universal practice in program countries,[10] these discussions tend to be less effective than stand-alone Article IV consultations in non program countries in bringing to the fore a critical assessment of recent economic developments, short- and medium-term prospects and vulnerabilities, and possible differences in views between the staff and the authorities on key policy issues. It was argued that these differences appear to be linked to the dynamics of the program environment and their impact on the implementation of surveillance. This raises two important questions. First, do the differences between stand-alone Article IV reports and combined Article IV/UFR reports suggest that surveillance in program countries is less effective? In other words, should surveillance in program and non-program countries be judged by the same standards? Second, if these differences are indeed important, how can surveillance in program countries be strengthened? The answer to the first question depends on the role of surveillance in program countries.

27. The notion that surveillance has a distinct role to play in program countries is not immediately obvious. Since the broad objectives of Fund surveillance and Fund-supported programs are essentially the same—both aim to promote (or restore) macroeconomic stability, external viability and sustainable growth—it could be argued that for the time of the program, conditionality ensures the consistency of policies with these objectives, obviating the need for surveillance.

28. However, the policies pursued under a Fund program need to be subjected to a broader scrutiny to make sure that they are (or remain) adequate to achieve the program's objectives. This scrutiny requires a stepping back from the program framework to examine economic conditions, prospects and the policy strategy, and give a frank account of the staff's

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[8] While the average interval between two consultations has been even longer for non-program developing countries, this group includes countries that are formally on 18- or 24-month consultation cycles.

[9] For instance, the last Article IV consultation with Turkey was concluded on December 22, 1999.

[10] During 2000-01, all Article IV consultations with program countries were combined with UFR missions, although in some cases (e.g., the 2000 Article IV report on Azerbaijan or the 2001 Article IV report on Nigeria) the report was issued as a stand-alone Article IV consultation report as the program went off-track.

and the authorities' conclusions from this examination—i.e., it requires the kind of exercise that defines Fund surveillance. Program reviews serve, by definition, a different purpose. They focus on the specifics of the program framework that is based on an agreed strategy, and as such tend to assess developments at the margin rather than reopening the larger strategic questions.

29. Article IV consultations thus have in essence the same task in program and non-program countries. Against this background, the differences in the conduct of surveillance in program and non-program countries do indeed raise concerns about the effectiveness of surveillance in the latter. This suggests a need for a fresh look at key aspects of the conduct of surveillance in program countries to examine how it can be strengthened.

Adapting the Timing of Article IV Consultations

30. The effectiveness of surveillance in a program context, i.e., the usefulness of a "stepping back" exercise, clearly depends on its timing: a fundamental reassessment of economic developments, prospects and polices is not equally helpful at all times in the life of a program. At the same time, given frequent program reviews, ensuring continuity of contact between the staff and the authorities is typically not a major concern in program countries. These factors would point to greater flexibility in the timing of Article IV consultations in program countries, and a reexamination of the current criteria for annual consultation cycles, which include, inter alia, the existence of a Fund-supported program as one of the criteria for annual consultations. Nevertheless, there is a need for well-defined rules to ensure that the often difficult "stepping back" exercise is not unduly postponed.

31. A comprehensive assessment of economic conditions and prospects as well as a frank exchange of views on policies is clearly necessary before a program is negotiated. If the last Article IV consultation was completed relatively recently, say less than 6 months ago, there may be no need for a new exercise of this kind. However, if the last Article IV consultation dates back longer, a reassessment of economic conditions and policy options would likely be needed to serve as a platform for program design. The appropriate framework for this exercise would be an Article IV consultation. In some crisis situations, a comprehensive assessment may not be feasible before the program negotiations; in these cases, a thorough examination of economic conditions and policies in the context of an Article IV consultation would need to be undertaken as soon as the crisis permits, but probably no later than 6 months after program approval.

32. Assuming that an Article IV consultation has taken place within a reasonable period before program approval, there may be no need for another consultation relatively soon after the start of the program, as would be required under the 12-month cycle. Indeed, there may be no need for a consultation during a relative short program, say a 12-18 month stand-by arrangement that remains on track. However, in multi-year arrangements, a broader reexamination of economic developments, prospects, and the policy strategy in the context of an Article IV consultation will likely become necessary some time down the road. A suitable time for such an exercise will typically be before the negotiation of a new annual program—

in most instances before the second annual arrangement. In the case of PRGF arrangements, an appropriate time for an Article IV consultation would be the preparation of an annual PRSP progress report, which, ideally, will be timed to coincide with the annual budget cycle.

33. A reassessment of the program strategy, and, hence, an Article IV consultation, will also become necessary when a program moves off track—a situation that is typically characterized by an inability to complete a program review. Finally, the completion of a program or its replacement by another program would be an appropriate time to assess what has been achieved and identify the policies needed to consolidate the gains, make further progress, or compensate for past slippages.

34. The considerations outlined above could serve as a basis for guidance on the timing of Article IV consultations in a program environment. They could help establish a presumption that the situations described indicate a need for conducting an Article IV consultation, rather than constituting a reason for delaying a consultation that is due—a relatively common occurrence at present.

35. Implementing this guidance would require greater flexibility in consultation cycles for program countries. A possible approach would be to move members under Fund arrangements to a 24-month cycle for the time of the arrangement, subject to the following two qualifications: (i) if the last Article IV consultation was concluded more than 6 months before the approval of the arrangement, the next consultation should be concluded no later than 12-month (plus the usual 3-month grace period) after the previous consultation or 6 months after approval of the program, whichever is later; (ii) if completion of a program review gets delayed, an Article IV consultation should be concluded no later than 12 months (plus the usual 3-month grace period) after the previous consultation or 6 months after the original date of the delayed review, whichever is later, unless a review is completed within that period.

36. These two qualifications would achieve the following objectives. The first qualification, which would apply to all new programs (including those replacing another program), would ensure that in cases where an Article IV consultation did not take place within a reasonable timeframe before program approval, it is not unduly delayed subsequently. The second qualification would provide for an Article IV consultation within a reasonable timeframe when a program moves off track. Countries would automatically revert to an annual consultation cycle when the program expires, with the next consultation to be completed no later than 12 months (plus the usual 3-month grace period) after the last consultation or 6 months after the end of the program, whichever is later.

37. To facilitate proper alignment of Article IV consultations in program countries with the timeframe of the program, greater flexibility in producing background documentation may also be helpful. For example, using the flexibility discussed in the companion paper on

the framework and conduct of surveillance could help avoid postponement of "pre-program" Article IV consultations due to staffing constraints.[11]

38. In practice, efforts to ensure appropriate timing of Article IV consultations consistent with the above guidance may lead to greater reliance on stand-alone Article IV consultations, even if the option of combined Article IV/UFR discussions is retained. The resource implications of this approach would be ambiguous, as the additional cost of conducting consultations more independently could offset the savings from a lower consultation frequency, which, given the length of effective consultation cycles in program countries, may be relatively small.

Increasing the Independence of Surveillance

39. Better synchronization of the timing of Article IV consultations with the timeframe of the program would help make surveillance a more meaningful exercise in program countries. However, it would not automatically ensure that the necessary "stepping back" from the program framework does indeed take place. To achieve this, surveillance in a program context needs to become understood as an independent exercise, rather than as an add-on to the program discussions.

40. To further this understanding, the Executive Board could provide explicit guidance on the specific objectives of surveillance in program countries.[12] This guidance would highlight the need for a "fresh and independent look." It would emphasize (i) the importance of a comprehensive assessment of economic developments beyond the narrow focus on program targets; (ii) the need for a critical review of short- and medium-term prospects, even if this calls into question the original program framework; (iii) the need for a stock-taking of measures to date and their effectiveness; and, in particular, (iv) the importance of a candid account of the dialogue between the staff and the authorities on key policy issues and the program strategy more generally, even if this would reveal major differences, as one or the other party has revised its assessment of the program or the economic environment.

41. Clearly, making surveillance more independent from the program framework does not mean that this framework should be ignored. In fact, Article IV staff reports complying with this guidance would likely be more candid on the risks associated with a program, and more outspoken on the views of both the staff and authorities, including on first-best policy options, the existence of political constraints, and the scope of compromise necessary to preserve ownership in reaching agreement with the authorities. In short, they could help strengthen the program.

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[11] See *Biennial Review of the Implementation of theFund's Surveillance and of the 1977 Surveillance Decision: Framework and Conduct of Surveillance in 2000-01.*

[12] As discussed in chapter IV, the relatively brief experience with post-program monitoring suggests that clear guidance can help sharpen the focus of surveillance activities.

42. A more radical approach to increasing the independence of surveillance in program countries would be to rule out combined Article IV/UFR discussions and require that stand-alone consultation missions be headed by a different mission chief (possibly from another department than the area department concerned). This “institutional firewall” between program and surveillance activities would clearly facilitate taking a "fresh look." In some instances, particularly when there are serious concerns about the viability of the program strategy, such an approach may seem appealing. However, the resource cost of introducing an “institutional firewall” between surveillance and program discussions would be substantial. More importantly, it could seriously complicate the process of trying to reconcile the conclusions from the surveillance exercise and practical program considerations. Indeed, significant efficiency losses could result as a three-way negotiation process between the surveillance team, the program team and the authorities emerges. While program considerations should not stymie the surveillance exercise, they cannot be ignored either. Efforts to strengthen surveillance in program countries need to take this into account.

III. Staff-Monitored Programs

A. Introduction

43. In the past two decades, the Fund has sought to respond in various ways to members’ needs for closer monitoring of their policies outside a Fund-supported program. Such monitoring has gone beyond the regular Article IV process and has taken on the form of enhanced surveillance, Fund-monitored programs and staff-monitored programs (SMPs) Only one of these procedures—Fund-monitored programs in the context of the Fund’s strategy on overdue financial obligations—implies Fund (i.e., Board) endorsement of the member’s policies; the other two do not carry such endorsement (Box 4).

44. By the time of the first comprehensive review of various monitoring procedures in 1995, enhanced surveillance and Fund-supported programs had become relatively rare, and staff-monitored programs had emerged as the main vehicle for such monitoring. Directors felt that informal staff monitoring represented a flexible way of meeting members’ requests for a more intensive policy dialogue with the Fund and had generally served to make operational the Fund’s policy advice to the member. They noted, however, that staff needed to ensure that the Board had an appropriate opportunity to provide guidance at critical junctures and expressed concerns about possible misinterpretations of the procedure as implying formal Fund endorsement.

Box 4. Enhanced Surveillance, Fund-Monitored Programs, and Staff-Monitored Programs

Enhanced surveillance was introduced in 1985 to help members with a good record of adjustment address their debt problems in the context of multi-year rescheduling agreements (MYRAs) with commercial bank creditors. Following a review in 1993, the Board agreed to a broader application of the procedure outside the context of MYRAs as a general means to boost domestic and external confidence. Initiation of enhanced surveillance requires Board approval on the basis of a positive assessment by the staff of the member's program. However, enhanced surveillance does not entail Board endorsement of the member's program, nor does it require that the latter meet the standards of upper credit tranche conditionality.

Fund-monitored programs were initiated in 1989 in the context of efforts to resolve cases of members with arrears to the Fund. Unlike enhanced surveillance and SMPs, these programs are endorsed and reviewed by the Board and are expected to contain policy intentions and targets that meet upper credit tranche conditionality. The approach has been used by a few members with relatively small arrears and good prospects for clearance within a relatively short period of time, such as Guyana (1989) and Panama (1990). It was further developed into "rights accumulation programs" (RAPs) for members with larger and more protracted arrears to the Fund.

Staff-monitored programs emerged as an informal monitoring procedure to satisfy requests by members for monitoring of their policies to provide signals to official and/or private creditors, or to help them establish a track record for a Fund arrangement or RAP. Staff monitoring can be initiated without formal Board approval, does not entail Board endorsement of the member's policy program, and does not require that the monitored program meet upper credit tranche conditionality.

Monitoring under enhanced surveillance, Fund-monitored programs, and staff-monitored programs is a service provided by the Fund to its members under Article V, Section 2(b). By contrast, surveillance under Article IV is a right and an obligation of Fund members.

45. The Board revisited the issue of staff monitoring in March 1997 in the context of the biennial review of Fund surveillance. On this occasion, Directors again welcomed the flexibility of SMPs, but agreed that staff monitoring should only be undertaken in situations where the staff judged that the authorities' policy program was both consistent with its stated objectives and with the thrust of Fund advice provided in the Article IV context. Directors reiterated that SMPs do not constitute Fund endorsement of a member's policies, and a number of them expressed concerns that they could be misinterpreted as carrying a "seal of approval;" such misinterpretation could make investors less cautious.

46. In recognition of the need to ensure uniform treatment across members and guard against possible misinterpretation by the public of the nature of the Fund's involvement in the context of SMPs, the staff subsequently prepared two papers to develop minimum criteria regarding form and content of SMPs. At the discussion of the first paper, Directors underscored the need to maintain a minimum standard across countries and categories of SMPs, and requested the preparation of draft guidelines that would set out a framework for informal staff monitoring, taking into account Directors' views. The Board subsequently discussed a second paper, including a draft set of guidelines, in December 1998.

47. This chapter reviews the experience with SMPs following the 1998 draft guidance note. The next section briefly summarizes the key elements of the guidance note; this is followed by an overview of pre- and post-1998 trends in the frequency, documentation and communication of SMPs, as well as a discussion of quality control issues regarding their policy content. The concluding section highlights a number of issues that may require further clarification.

B. The 1998 Draft Guidelines

48. The 1998 draft guidelines outlined the circumstances under which informal staff monitoring would be appropriate, and defined a set of rules for such monitoring. The purposes of SMPs were identified as: (i) serving as a kind of extended prior action for members seeking to establish or re-establish a policy track record with the Fund; (ii) serving as a vehicle for maintenance of a particularly close policy dialogue with the Fund, including after the completion of a Fund financial arrangement; and (iii) serving to convey a signal to official creditors, donors, and/or financial markets of a member's commitment to credible and sound macroeconomic policies.

49. In light of the views expressed by the Board in preceding discussions on SMPs, the draft guidance note set forth a set of rules for SMPs consistent with the following broad objectives. The rules were to: (i) maintain the salient features of the established practice, particularly with respect to flexibility; (ii) ensure consistency of treatment among members; (iii) promote greater transparency while guarding against the possible misinterpretation of the Fund's "seal of approval;" and (iv) ensure that the Executive Board remains sufficiently informed.

50. The proposed rules focused on policy content, monitoring framework, documentation and communication of SMPs.

- *Program content*. The draft guidelines stipulated that the program content should be guided by the most recent Article IV consultation and supported by a quantitative macroeconomic framework, including medium-term projections. While it was recognized that a members' policies under an SMP may not be sufficiently strong to elicit Fund financial support, program content and monitoring of a track-record SMP were to resemble closely, or build toward, the target arrangement; in the case of signaling SMPs, they were expected to be sufficiently strong to maintain or improve the member's medium-term economic outlook and external viability, providing a framework conducive to the effective use of external resources. Staff was advised to refrain from reaching understandings on an SMP if a credible and consistent policy package is not in place, and prior actions could be required in cases where a member's policies are significantly misaligned at the outset.

- *Program length and frequency of monitoring.* While it was understood that the duration of SMPs would likely vary depending on a member's past track record, the objectives of the program and the policy measures included, the draft guidelines established an expectation that SMPs would cover a minimum of six months and two test dates, and would generally not extend beyond 12-18 months, although longer periods were not precluded.

- *Documentation and communication to the Board.* The draft guidelines stipulated that SMPs should generally be supported by a memorandum of economic and financial policies (MEFP) specifying the authorities' objectives and policies, including quantitative and structural benchmarks. Timing and form of communication to the Board could vary, depending on the timing of the request for an SMP. If the request was received during an Article IV consultation, the program should be described in the Article IV staff report, which would attach the MEFP. If the request was received between Article IV consultations, staff should inform the Board during the next country matters session and describe the SMP, as well as performance up to that point, in the next Article IV report, with the MEFP attached. Alternatively, a stand-alone paper on the SMP could be circulated to the Board for information. In any case, staff should explain the purpose of the SMP, the quantitative framework, and the risks associated with the authorities' program. Assessments of performance under an SMP should be included in Article IV staff reports and subsequent requests for Fund resources.

- *Communication to the public.* To guard against possible misinterpretation of the status of staff monitoring and impart discipline to the use of an SMP, the authorities should be encouraged to publish their MEFP, and to request a PIN following the conclusion of an Article IV consultation held during or after an SMP. Recognizing that transparency is particularly important when the primary objective of an SMP is to provide a signal to financial markets, the draft guidelines suggested that in such cases the authorities should be encouraged to release the staff's regular assessments of the program, and staff may refrain from reaching an agreement on an SMP if adequate understandings on transparency cannot be obtained. Finally, staff should insist that any public statements by the authorities on the SMP convey its informal nature.

C. Recent Trends in SMPs: Frequency, Documentation and Communication

51. While the average number of SMPs per year has been broadly the same in 1999-2001 as in 1992-98, there has been a marked upward trend during the past 3 years. In 1999, immediately after the December 1998 Board discussion, only 3 SMPs were initiated; in 2001, the staff agreed on 11 SMPs. Monitoring to establish a track record continues to account for three quarters of SMPs (Table 2). Changes in the length of SMPs have been relatively marginal, although explicit expectations (in the draft guidance note) concerning the duration of SMPs may have contributed to some shortening of the median length, and perhaps to the fact that serial SMPs have become even rarer.

52. The 1998 draft guidelines led to striking changes in the form, documentation and communication of SMPs. Monitorable, quantified macroeconomic frameworks—frequently, but by no means always, present prior to 1998—have become universal. Policy programs are

now commonly described in LOIs/MEFPs, which are communicated to the Board, either in the context of an Article IV staff report or on a stand-alone basis. Before 1998, information provided to the Board was not only less comprehensive; in some cases, the Board was not informed at all. Finally, since 1999 all SMPs have been communicated to the public by means of a press release, news brief, or PIN, compared with just 15 percent prior to the 1998 draft guidelines.[13] This is line with the Fund's general move towards greater transparency.

[13] See Appendix Tables 1 and 2 for a detailed overview of pre- and post-1998 SMPs.

Table 2. Key Features of SMPs Before and After the December 1998 Draft Guidelines 1/

	1992-1998	1999-2001
Average number of SMPs per year		
Mean	8	7
Median	8	6
Distribution of SMPs by principal purpose (in percent) 2/		
Track record	73	76
Signaling and close dialogue (measured by country episodes)	27	24
Average length of SMPs, months		
Mean	11	11
Median	12	9
Percentage of SMPs longer than 18 months	6	5
Percentage of serial SMPs (measured by country episodes) 3/	12	10
Percentage of completed track-record SMPs (excluding arrears cases) succeeded by UFR arrangement within 12 months	71	43
Percentage of SMPs with quantified macroeconomic framework	72	100
Percentage of SMPs with LOI/MEFP	22	100
Percentage of SMPs reported to the Board	91	100
Percentage of SMPs with stand-alone SMP papers issued to the Board	6	19
Percentage of SMPs communicated to the public	15	100

Source: Policy Development and Review Department.

1/ The figures in this table do not include SMPs in countries with arrears to the Fund, which in some respects, including in length, are sui generis.
2/ A number of SMPs defined in this study as track-record SMPs have also served a signaling purpose by providing a framework for donor assistance and facilitating external aid flows outside of the context of a Fund program (e.g., Haiti 1998, FYR Macedonia 2002). At the same time, most SMPs characterized by the authorities as close policy dialogue could have been aimed at primarily reassuring both domestic and international financial markets that the authorities' policies remained sound (e.g., Barbados 1995-96, Tunisia 1995-98, Poland 1996, and Turkey 1998).
3/ Defined as a series of consecutive SMPs.

D. Policy Content and Program Strength

53. By requiring that SMPs contain a quantified macroeconomic framework and that the authorities' policies be described in an MEFP, the 1998 draft guidelines have clearly helped strengthen the presentation and documentation of the policy content of SMPs; this, in turn, has facilitated program monitoring. Table 3 provides an overview of the policy content and monitoring arrangements of SMPs agreed during 1999-2001, i.e., after the December 1998 Board discussion. All SMPs have included quantitative benchmarks, ranging from 5 to 12 per SMP, and all but one had structural benchmarks; some have also included prior actions.[14] Monitoring has been based on quarterly test dates and quarterly or semi-annual performance assessments.

[14] The prior actions shown in Table 3 do not necessarily cover all prior actions used in the SMPs considered. In some instances, prior actions were not included in the text of the LOI/MEFP and were, therefore, difficult to account for.

Table 3. SMP Content and Monitoring

		Number of		Quantitative Benchmarks 2/		Structural Benchmarks 3/	
	Prior actions	quarterly test dates	performance assessments /1	Total Number	Policy Areas	Total Number	Policy Areas
Angola (2000)	--	3	1 mid-term	8	External Debt; Monetary Management	4	Financial Sector; Governance; Parastatal Reform; Regulatory Environment; Sectoral Policy; Trade Regime
Belarus (2001)	3	2	2 quarterly	5	Monetary Policy; Tax Policy and Administration; Expenditure Management	30	Regulatory Environment; Monetary Policy; Foreign Exchange Regime; Tax Policy and Administration; Financial Sector; Parastatal Reform; Sectoral Policy
Burundi (2001)	4	2	2 quarterly	7	Monetary Management; Expenditure Management; External Debt	10	Tax Policy and Administration; Expenditure Management; Financial Sector; Foreign Exchange regime; Governance; Parastatal Reform; Regulatory Environment; Social Safety Net
Cape Verde (2001)	--	2	1 mid-term	5	Monetary Management; Expenditure Management; External Debt	3	Tax Policy and Administration; Financial Sector
Central African Republic (2001)	--	2	2 quarterly	6	Monetary Management; Expenditure Management; Tax Policy and Administration; External Debt	4	Trade Regime; Tax Policy and Administration; Sectoral Policy
Cote d'Ivoire (2001)	3	6 monthly	1 mid-term	10	Monetary Management; Expenditure Management; Tax Policy and Administration; External Debt	4	Sectoral Policy; Financial Sector; Governance
Comoros (2001)	2	4	2 semi-annual	6	Monetary Management; Expenditure Management; Tax Policy and Administration; External Debt	4	Governance; Tax Policy and Administration; Expenditure Management; External Debt; Financial Sector
Congo, Democratic Republic (2001)	15	3	2 quarterly	6	Monetary Management; Expenditure Management; External Debt	7	Expenditure Management; Parastatal Reform; Financial Sector; Regulatory Environment; Governance; Social Safety Net; Tax policy and Administration
Haiti (2000)	--	4	3 quarterly	8	Monetary Management; External Debt; Expenditure Management	10	Tax Policy and Administration; Expenditure Management; Financial Sector; Parastatal Reform
Jamaica (2000)	--	3 quarterly and 1 annual 4/	3 semi-annual	7	Monetary Management; Tax Policy and Administration; External Debt	5	Financial Sector; Parastatal Reform; Social Safety Net
Lesotho (2000)	--	3	1 mid-term	5	Tax Policy and Administration; Monetary Management; External Debt	5	Tax Policy and Administration; Sectoral Policy; Parastatal Reform; Regulatory Environment
Liberia (2000)	4	2	1 quarterly	9	Tax Policy and administration; Expenditure Management; External Debt	5	Expenditure Management; Regulatory Environment; Monetary Management
Macedonia, FYR (2002)	--	2	1 mid-term	12	Monetary Management; Expenditure Management; External Debt	--	--
Nicaragua (2001)	--	2	1 mid-term	10	Monetary Management; Expenditure Management; External Debt	12	Financial Sector; Parastatal Reform; Governance; Social Safety Net
Nigeria (1999)	--	4	4 quarterly	4	Monetary Management; External Debt	5	Governance; Parastatal Reform; Tax Policy and Administration; External Debt
Paraguay (2001)	--	3	1 mid-term	4	Fiscal Policy and Administration; Monetary Management; External Debt	5	Tax Policy and Administration; Parastatal Reform; Financial Sector; Expenditure Management; Regulatory Environment
Sao Tome and Principe (1999)	--	4	1 mid-term	8	Tax Policy and Administration; Expenditure Management; Monetary Management; External Debt	4	Regulatory Environment; Governance; Parastatal Reform; Sectoral Policy; Social Safety Net; Data
Slovak Republic (2001)	--	3	2 semi-annual	6	Monetary Management; Expenditure Management; External Debt	11	Expenditure management; Tax policy and Administration; Financial Sector; Parastatal Reform; Social Safety Net; Regulatory Environment
Sudan (1999)	--	12	12 quarterly	11	Monetary Management; Expenditure Management; External Debt	8	Foreign Exchange Regime; Tax Policy and Administration; Regulatory Environment; Trade Regime; Data Provision; Financial Sector; Parastatal Reform; Social Safety Net; Regulatory Environment; Monetary Management; Governance
Togo (2001)	2	6 monthly	1 mid-term	7	Tax Administration and Policy; Expenditure Management; External Debt; Monetary Management	10	Parastatal Reform
Trinidad and Tobago (2000)	--	3	1 mid-term	9	Monetary Management; External Debt; Expenditure Management	5	Parastatal Reform; Sectoral Policy; Monetary Management; Data Provision

Source: Policy Development and Review

1/ As indicated in the LOI/MEFP. Normally, an additional assessment of performance based on the last test date takes place even though it is not specified in the

2/ The quantitative benchmarks typically cover NFA/NIR, NDA, banking system credit to government, central government balance, revenues, and external payments arrears, public sector external debt stock, and nonconcessional public and publicly guaranteed

3/ Number of structural benchmarks refers to one 6-month period.

4/ The quarterly targets were specified for the first nine months of the program plus one annual target for the end of the SMP

54. However, clearer presentation and better documentation does not guarantee that the policy content itself is adequate. As for the latter, the only specific and monitorable rule established in the draft guidelines is that the policy content of an SMP should follow the recommendations of the last Article IV consultation. In addition, the draft guidelines established a general expectation that policies and monitoring frameworks of track-record SMPs should resemble, or build toward, the target arrangement, and that they should be sufficiently strong to maintain or improve the medium-term outlook and external viability in the case of signaling SMPs.

55. Judging by the coverage of policy measures recommended in the summing up of the last Article IV consultation, SMPs agreed during 1999-2001 have broadly conformed to the draft guidelines (Table 4). With few exceptions, at least half of the measures in each of the policy areas—fiscal, monetary, and structural—have been incorporated in the text of the MEFP and at least a fifth have been included as program benchmarks or prior actions.[15] [16] Averaged across policy areas and all SMPs in the sample, nearly 80 percent of the recommended measures are reflected in the text of the MEFP and nearly half as benchmarks or prior actions. On this measure, the SMPs agreed by the staff after the 1998 Board discussion were in line with the standards of the draft guidelines.

56. The above comparison of the policy content of SMPs with the summing up for the most recent Article IV consultation provides an assessment against an established standard. However, compliance with this standard does not necessarily guarantee an adequate adjustment program that stands a reasonable chance of being implemented successfully. In many cases, translating the policy recommendations of the summing up into a quantified adjustment program may leave considerable room for interpretation; in others, external shocks since the last Article IV consultation may necessitate additional adjustment measures that were not covered in the summing up. Finally, in the case of track-record SMPs, there may be instances where the desire to engage a country with a weak track record outweigh

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[15] Given the protracted nature of some structural reforms, no distinction was made between the initiation and the completion of reform measures. For example, if the summing up called for privatization of state-owned banks, the objective was considered incorporated in the program if the latter envisaged formulation of a strategy for bank privatization. It should also be noted that some SMPs contained policy reform measures that were not in the summing up—such as measures that could reflect developments that may have taken place following the conclusion of the Article IV consultation discussions. These measures were not included in the analysis.

[16] SMPs with FYR Macedonia, Democratic Republic of the Congo (DRC), Liberia and Sudan were excluded from this exercise as special cases. The SMPs with Liberia and Sudan were discussed by the Board in the context of overdue obligations. The SMP with DRC (which is also an arrears case) is considered as the first step toward restoring economic stability and establishing the conditions for a revival in economic activity and the initiation of a reconstruction process following the civil war. Assessment of this program's content would be difficult given the absence of a meaningful point of reference: the last Article IV consultation preceding the SMP was concluded in March 1996. Finally, the SMP with FYR Macedonia was put in place after the eruption of a security crisis which had changed the dynamics of the economy and thus diminished significantly the applicability of the most recent Article IV consultation as the relevant benchmark for program assessment.

Table 4. Percentage of Policy Measures Recommended by Directors in the Article IV Summing Up Incorporated in the SMP

	Fiscal Policy and Fiscal Sector Reform		Monetary and Exchange Rate Policies		Structural Reform and Governance		AVERAGE	
	MEFP text	Benchmarks 1/	MEFP text	Benchmarks 1/	MEFP text	Benchmarks 1/	MEFP text	Benchmarks 1/
Angola (2000)	100	0	50	25	89	67	80	31
Belarus (2001)	100	100	100	100	83	83	94	94
Burundi (2001)	80	80	75	50	75	50	77	60
Cape Verde (2001)	86	14	100	0	100	33	95	16
Central African Republic (2001)	100	50	--	--	40	40	70	45
Cote d'Ivoire (2001)	57	14	--	--	67	33	62	24
Comoros (2001)	100	75	--	--	75	25	88	50
Haiti (2000)	40	20	--	--	80	80	60	50
Jamaica (2000)	80	0	100	100	100	100	93	67
Lesotho (2000)	100	50	50	0	80	40	77	30
Nicaragua (2001)	33	33	50	0	75	50	53	28
Nigeria (1999)	50	0	100	50	100	50	83	33
Paraguay (2001)	50	50	100	100	60	20	70	57
Sao Tome and Principe (1999)	67	33	100	0	60	60	76	31
Slovak Republic (2001)	75	50	--	--	100	67	88	58
Togo (2001)	86	29	--	--	60	40	73	34
Trinidad and Tobago (2000)	67	0	100	67	67	33	78	33
AVERAGE	75	35	84	45	77	51	79	44

Source: Policy Development and Review Department.

1/ Includes prior actions

doubts about the depth and breadth of domestic political commitment, since it is this poor track record that these SMPs seek to overcome. Rather than relying on ex ante assessments of program content against the minimum criteria established in the draft guidelines, the strength of SMPs, therefore, needs to be judged ex post on the basis of whether they achieve their objectives.

57. In the case of SMPs that are primarily intended to establish a track record for a UFR arrangement, the program could be said to have achieved its objective if it does indeed lead to such an arrangement. Judging the strength of an SMP on the basis of this criterion is certainly not without problems. For one, a Fund arrangement may be approved even though performance under the SMP was unsatisfactory.[17] Nevertheless, the expectation that a track-record SMP should lead to a Fund-supported program with upper credit tranche conditionality provides a useful quality check for such SMPs: failure to move to such an arrangement and prolonged reliance on an SMP presumably indicates that the latter has not achieved its objective.

58. The assessment of the quality of recent SMPs according to this criterion is marred by the small sample of completed track-record SMPs since the 1998 draft guidelines. Of the 7 track-record SMPs agreed and completed during 1999-2001, less than half have been succeeded by a Fund arrangement, compared with 70 percent of the 28 completed track record SMPs in the 1992-98 sample.[18] Two of the four “unsuccessful” recent track-record SMPs were in Angola and Haiti, two countries where pre-1998 SMPs were equally unsuccessful. Excluding these two cases would slightly lower the share of "successful" SMPs in the 1992-98 sample and would raise it to 60 percent in the 1999-2001 sample. On the basis of this small sample, it seems difficult to draw firm conclusions about developments in the strength of track-record SMPs.

59. While the strength of track-record SMPs can—at least ex post—be subjected to a relatively simple test, no such general criterion exists for assessing the strength and success of signaling SMPs, i.e., those SMPs that are primarily intended to provide a signal to private and/or official creditors. With starting conditions and policy programs varying considerably across countries, it is difficult to assess the relative strengths of such signaling SMPs without a detailed analysis of the conditions in each country. The cases of Slovak Republic and Jamaica illustrate this point (Box 5).

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[17] Satisfactory performance under an SMP is an important, but by no means the only, factor in considering whether to grant access to Fund resources. A case in point is Nigeria 2000.

[18] Excluding arrears cases.

Box 5. Signaling SMPs in Jamaica and the Slovak Republic

Initial conditions

Jamaica entered the year 2000 with a large public debt burden, a currency that was overvalued in real terms, high real interest rates, negative growth, and rising external debt payments. To reduce the public sector borrowing requirement and reverse the adverse debt dynamics, the authorities were seeking to replace high cost domestic debt with external market financing and multilateral debt on more favorable terms through recourse to financial sector loans from the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank. To secure these borrowings, the Jamaican authorities opted for a signaling SMP that could be presented as the government's program at home while conveying a signal of "Fund involvement" to official creditors and financial markets.

Unlike Jamaica, the **Slovak Republic**, in the period prior to the SMP, did not experience major macroeconomic imbalances and was enjoying accelerating growth, declining interest rates, and access to international capital markets. As part of their structural reform efforts, the Slovak authorities sought to strengthen bank supervision with support from the World Bank under an Enterprise and Financial Sector Adjustment Loan. To meet the Bank's request for Fund assessment of macroeconomic performance, the authorities agreed to a signaling SMP, which would provide a quantified framework for such an assessment while avoiding more "intrusive" forms of Fund engagement (such as a precautionary arrangement) that could signal "problems."

Form and content of MEFP

Short of using the words *performance criteria*, the form of the **Jamaican MEFP** was very much UFR-like. Its content was focused on the stated objectives—to reduce the public sector borrowing requirement and reverse adverse debt dynamics, contain inflation, and prevent further real appreciation of the exchange rate—and the quantitative framework and program targets were designed to support the achievement of these objectives. The macroeconomic framework envisaged a significant reduction in the public sector borrowing requirement. Quantitative targets were specified, accordingly, for the fiscal deficit, NDA, NIR, and commercial borrowing. In the event, the fiscal targets were missed repeatedly (although not by a wide margin), and the underperformance on the fiscal side was financed by commercial borrowing in excess of the specified limit. As a result, the external debt continued to rise while the domestic debt declined only slightly (remaining 22 percentage points of GDP higher than targeted under the program) and the targeted reduction in interest rates did not materialize. To accommodate the higher fiscal deficit financed by external borrowing, the SMP targets were revised twice: during the mid-term review and subsequently on an ad hoc basis after the September 11th events. The authorities have requested a successor signaling SMP to continue the strategy of borrowing from the World Bank and the Inter-American Development Bank, as well as in international capital markets.

The **Slovak MEFP** laid out the authorities' broad structural reform agenda, but the structural measures under the SMP focused on fiscal and financial sector reform, which were seen as key to achieving macroeconomic stability in the medium term. The quantitative benchmarks were centered on fiscal policy and were intended to support the policy commitments on macroeconomic stability in the short term. During the first review, fiscal and monetary performance under the program were found to be in compliance with program targets, despite having missed the NDA and NIR targets by small margins.

60. Moreover, signaling SMPs not only lack a simple criterion for assessing success or failure, they also lack a clear exit strategy. Since the need for signaling may, in principle, be open ended, it is perhaps not surprising that the average duration of signaling SMPs has tended to be longer than that of track-record SMPs. While the average length of track record SMPs (both mean and median) has been around 9 months, the mean length of signaling

SMPs has been 18 months, and the median has been 12 months. In addition, serial SMPs have been more common in the signaling cases; for example, Trinidad and Tobago had 7 consecutive signaling SMPs between 1992 and 1998.

E. Monitoring of Performance

61. While the 1998 draft guidelines established clear expectations as to the form and frequency of monitoring, they were less specific on the reporting of the results from the monitoring exercise. As a general rule, they stipulated that performance under an SMP should be reported in Article IV staff reports; for signaling SMPs, they suggested that the authorities should be encouraged to release the staff's regular assessments to the public.

62. Given the lack of more specific guidance on the reporting of performance under an SMP, the quality of performance assessments in Article IV staff reports has varied significantly. While the 2001 Article IV report for Belarus contained a separate section with an extensive and frank assessment of performance under the SMP—which included an explicit statement that a track record had not been established—in the case of other completed track-record SMPs (Haiti, Lesotho, Nigeria, and São Tomé and Principe) the description of performance was limited to a short paragraph or a few sentences in the background sections of the Article IV staff reports, with brief references to tables of benchmarks. Summary assessments of performance were typically relatively brief and general. For instance, in Lesotho and São Tomé and Principe, they were limited to a statement that benchmarks had been largely observed and performance was broadly satisfactory.

63. Reporting on performance assessments was equally scant for countries with signaling SMPs. In the 2001 Article IV report for Jamaica, for example, a general statement that performance under the SMP had been "broadly on track" was supported by a few scattered references in the text and a table on benchmarks; in the case of Trinidad and Tobago, the assessment was limited to a few general statements, without supporting information on benchmarks.

64. While the initiation of an SMP has been communicated to the public in all cases in the past three years, publication of performance assessments have been relatively rare. In a few cases (Jamaica, Trinidad and Tobago, São Tomé and Principe, and Sudan) Article IV consultation reports containing performance assessments have been published, but, as noted above, these assessments often fall short on specificity and detail. In some of these cases, PINs on the Article IV consultation discussion contained brief references to Directors' comments on performance under the SMP. The staff's performance assessments provided at the end of review missions have been made available to the public in only three cases in the past three years: Angola, Liberia, and the Slovak Republic.[19]

[19] The only other case is Turkey in 1998.

F. Conclusions

65. The preceding review of SMPs suggests that the 1998 draft guidelines have helped "regularize" the SMP process in a number of important ways. While retaining considerable flexibility, they have established minimum criteria regarding the policy content and monitoring procedures of SMPs, which have generally been followed. Equally (or perhaps even more) important, they have significantly enhanced the transparency of the process, both inside and outside the Fund, by creating clear expectations regarding the documentation of SMPs, as well as their communication to the Board and the public. However, the 1998 draft guidelines have been less effective in strengthening the reporting on performance under an SMP.

66. Weaknesses in the reporting of performance assessments are particularly problematic in the case of signaling SMPs, because they increase the ambiguity of the signals provided by these SMPs. This ambiguity arises from fact that SMPs do not have to meet well defined quality standards, such as upper credit tranche conditionality, but are, nevertheless, inevitably interpreted as carrying some sort of "seal of approval" of the member's policies.[20] The nature of the implicit "seal of approval" is thus ambiguous; it is only negatively defined as not entailing "Fund endorsement"—a distinction that may not be entirely clear to many private creditors, and perhaps not even to all official creditors (Box 6).

Box 6. SMPs and Adjustment Lending by Other Institutions

In principle, an SMP is not a requirement for adjustment lending by the World Bank or regional development banks. In the absence of a Fund-supported program, the Concordat with the World Bank calls for it to seek the Fund's assessment of the member's performance. Such an assessment can be provided on the basis of a summing up of the Board discussion or a staff memorandum to the Bank.

In practice however, other lending institutions and/or official donors and creditors (such as the E.U.) often insist on some form of Fund engagement to provide an assessment of policy performance. Recent examples are Jamaica 2000, Slovak Republic 2001, and FYR Macedonia 2002. In the latter case, the authorities formally requested an SMP at the encouragement of bilateral donors.

67. The ambiguity of the "seal of approval" associated with SMPs may not be a serious concern in the case of track-record SMPs, which are intended as a policy framework for members who are not yet able to meet the standards of upper credit trance conditionality. Provided their purpose is clearly indicated, there is little risk that these SMPs may be confused with a Fund-supported program. The situation is different in the case of SMPs that

[20] Without such a "seal of approval" the mere process of monitoring would be relatively meaningless, because it would provide little information to the addressees of the signals.

are intended to provide signals to official and/or private creditors. For these SMPs, the potential ambiguity of the signals they convey is problematic, because it can be exploited by members with relatively weak policies and may reinforce adverse incentives associated with signaling SMPs (Box 7).

Box 7. SMPs and Incentives

If one thinks in terms of a two-period model, track-record SMPs entail "contracting" (committing to the policies in the MEFP) in period 1 and getting a "payoff" (a Fund program) in period 2 if the contract is honored. Therefore, all else equal, track-record SMPs have a built-in incentive for the country to abide by the terms of the agreement in period 1.

Under a signaling SMP, both "contracting" and (part of) the "payoff" take place in period 1. Consequently, the incentives to comply with the program are weaker in this case, particularly given that the publication of staff assessments in period 2 is at the authorities' discretion, which allows them to release assessments of their performance only when they are positive. This adverse incentive problem is reinforced by the ambiguity of the signals provided by signaling SMPs, which permits members with weak adjustment policies to exploit the perceived "seal of approval" of such monitoring arrangements.

68. The recent trend toward more comprehensive documentation of SMPs may have increased the potential ambiguity surrounding their interpretation in pure signaling cases. While documentation in the form of LOIs/MEFPs has greatly enhanced the transparency of SMPs in general, it has obscured the formal distinction between documents on SMPs and Fund-supported programs, particularly precautionary SBAs. Again, this may not be a serious concern in the case of track-record SMPs because the need to build a track record points to a clear difference between the SMP and a Fund-supported program. In the case of signaling SMPs, however, the greater resemblance of SMPs to UFR arrangements in terms of their documentation may have further blurred the distinction between Fund-supported programs and SMPs, and may have increased the risk of SMPs being seen as carrying Fund endorsement.

69. The ambiguity of the signals provided by SMPs could be mitigated through increased transparency by setting clearer standards for the reporting on performance under an SMP and by creating a presumption to publish not only MEFPs but also all staff assessments under a program. All SMP-related papers would need to be published with a clear statement indicating that SMPs do not involve Board endorsement of the member's policy program, that the latter does not have to meet the standards of upper credit tranche conditionality, and that the strength of adjustment may vary considerably across countries. This approach would clarify the nature of SMPs, reduce the risk of blurring the line between SMPs and Fund-supported programs, and ensure transparency of performance under an SMP. However, it may not entirely rule out potential misinterpretation of the strength of an SMP, because in the absence of more rigorous quality standards, assessing the policy content of a signaling SMP would be left to the creditors it is meant to address.

70. Eliminating the risk that policies may be misjudged in signaling cases would require more clearly defined quality standards, such as upper credit tranche conditionality in the context of a precautionary stand-by arrangement. This may not satisfy members wishing to avoid any connotation of a possible need for Fund financing; in these cases, a monitoring arrangement similar to the Fund-monitored programs used in the arrears strategy could be considered. In either case, there would be no ambiguity about the standards for the policy program and the nature of the Fund's involvement, because the programs would carry explicit Fund endorsement. Members opting for these arrangements for signaling purposes would thus send a clear signal about the strength of their policies. Of course, members who are unable to meet the more rigorous standards of upper credit tranche conditionality could temporarily request monitoring under a track-record SMP building toward such an arrangement.

IV. Post-Program Monitoring

A. Introduction

71. Post program monitoring (PPM) was introduced in September 2000 as part of a wider effort to strengthen surveillance and crisis prevention of members that have substantial Fund credit outstanding but no longer have an arrangement.[21] Within the broader context of the Review of Fund Facilities, the Board discussed whether the Fund's facilities were doing enough to support its members' efforts to prevent crises; whether they were being used in ways consistent with the revolving character of Fund resources; and whether the Fund was staying in close enough touch with members that, while not drawing on Fund resources under arrangements, had large obligations to the Fund still outstanding. As a result of this discussion, the Board took the decision to introduce post-program monitoring for member countries that are no longer under an arrangement but still have credit outstanding in excess of 100 percent of quota.[22] This chapter discusses the modalities of post program monitoring, as well as the experience with its implementation so far.

B. Modalities

72. PPM is intended to provide an early warning of policies that could call into question a member's continued progress toward external viability, and thus could eventually imperil Fund resources, or at the least indicate that such resources were not being used (in the sense of *continuing* to be used) for their intended purpose. It also provides a mechanism for

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[21]See *IMF Board Completes Review of Fund Financial Facilities*, PIN No. 00/101, November 30, 2000.

[22] The Board agreed that the threshold should only cover all credit outstanding in the GRA; it would thus not cover the use of other resources such as the Poverty Reduction and Growth Facility.

bringing this to the attention of the Board and the authorities. PPM would normally cease when the member's outstanding credit fell below the 100 percent threshold.

73. Under PPM, members are subject to more frequent consultations than under normal surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability and vulnerability. PPM involves discussions between the member and the staff similar to those under Article IV consultations, but with a narrower focus, addressing in particular external vulnerability, medium-term viability and capacity to repay the Fund, and progress on structural policies, in particularly those that were started under the previous arrangement. PPM discussions are reported to the Board in a staff report. There are normally two Board discussions a year, one of which would coincide with the Article IV consultation.

74. The Board agreed that while the threshold for PPM would normally be credit outstanding of 100 percent of quota, this threshold was neither necessary nor sufficient. When a member's credit outstanding exceeded the threshold, there would be a presumption that the member would engage in PPM, but this presumption would not imply that members would automatically be subject to PPM. Rather, the Managing Director would recommend PPM to the Board, unless, in his view, the member's circumstances were such that the process was unnecessary. There would also remain a possibility of requiring PPM of a member that did not meet the criteria for the presumption of PPM, in cases where in the view of the Managing Director and the Board there were developments which called into question the member's progress toward external viability.[23]

[23] PPM is based on consultation clauses included in Fund arrangements. See *Guidelines on Conditionality* in Decision No. 6056-(79/38), March 2, 1979. ("Appropriate consultation clauses will be incorporated in all stand-by arrangements. Such clauses will include provision for consultation from time to time during the whole period in which the member has outstanding purchases in the upper credit tranches. This provision will apply whether the outstanding purchases were made under a stand-by arrangement or in other transactions in the upper credit tranches.").

C. Implementation

75. So far, five countries have been subject to post program monitoring. Three of these countries (Korea, the Philippines, and Thailand) had borrowed during the Asian crisis and had credit outstanding of 177-273 percent of quota. The fourth country, Russia, had credit of 144 percent of quota, while the fifth country, Algeria, had credit (104 percent) that barely exceeded the threshold (Table 5). In three countries PPM has finished; in two countries (Algeria, Russia) when outstanding credit fell below 100 percent; in the other (Korea) when credit was fully paid back.

Table 5. Countries with Post-Program Monitoring, 2000-November 30, 2001

	Decision Taken on PPM	End Date of PPM	Credit as Percent of Quota	
			At Start	At End
Algeria	04/19/01	08/29/00	104	100
Korea [1]	08/23/00	08/01/01	273	0
Philippines	03/01/01		177	
Thailand [1]	05/10/00		231	
Russian Federation [2]	09/20/00		144	

[1] Executive Directors called for close post-program monitoring at those dates. Modalities for post-program monitoring were defined later.
[2] Post-program monitoring in Russia ended in March 2002

76. In terms of style and length, stand-alone PPM reports were very concise and focused, while the combined reports were more similar to regular Article IV staff reports. By end November 2001, seven staff reports had been issued, of which four were stand-alone, and three were combined with the Article IV reports. The combined reports were quite lengthy, and, of course, in many ways more similar to traditional Article IV staff reports. The stand-alone reports were more narrowly focused and far more concise, with an average length of about 12 pages (excluding tables and charts), compared with 31 pages for the combined reports (Table 6).

77. In terms of contents, the stand-alone reports were clearly different from regular Article IV reports in that they were much more focused on the various vulnerabilities that affected the member country, and on the various policies that were used or could be used to reduce these vulnerabilities.

Table 6. Coverage of PPM Staff Reports

Country	Date	EBS	Standalone report?	Discusses: Ability to repay Fund	Discusses: Vulnerability	Discusses: Structural reforms	Paper length 1/
Algeria	8/6/01	EBS/01/130	No	++	++	++	28
Korea	1/4/01	EBS/01/1	No	-	++	++	38
Korea	7/5/01	EBS/01/111	Yes	-	++	++	12
Philippines	6/1/01	EBS/01/83	Yes	+	++	++	11
Russia	5/17/01	EBS/01/74	Yes	++	++	++	16
Thailand	11/22/00	EBS/00/236	Yes	++	++	++	7
Thailand	7/11/01	EBS/01/116	No	+	++	++	28

++: discussed extensively; +:discussed briefly; - not discussed

1/ Text only; excluding tables and charts.

78. In accordance with the guidelines, all reports discussed vulnerability, the ability to repay the Fund (where appropriate), and progress with structural reforms:

- Vulnerability was discussed extensively in all reports. Of course, as the sources of vulnerability differed across countries, the focus of these discussion varied as well. For example, while the reports for Thailand discussed the *capital* account vulnerabilities arising from the external exposure of private corporations and banks, the report for Algeria worried about the vulnerability of the *current* account to fluctuations in oil prices. Moreover, reports focused not only on *external* vulnerability, but also on risk on the *domestic* side. The reports for Korea, for instance, concluded that while external vulnerability was low, there were considerable domestic risks associated with corporate weaknesses.

- The ability to repay the Fund was also discussed in all reports, with the very natural exception of the two final reports for Korea, as the Korean authorities had announced that they planned to repay the Fund according to a more accelerated schedule that would result in full repayment by August 2001.[24]

- All reports paid extensive attention to progress with structural reforms, including those that were started under the program. For example, the report for the Philippines contained a table that listed the main objectives of the recent program, as well as the progress that had been made since.

[24] The first repurchase on the accelerated schedule was made on January 8, 2001.

79. While vulnerabilities and the ability to repay the Fund are of course linked, they were typically only linked explicitly in the reports in cases where the vulnerabilities could be quantified. A good example was the report for Algeria that discussed how lower oil prices would affect the capacity to repay the Fund. For other vulnerabilities, explicit links are much harder to establish. For example, if a country is at risk for sudden capital outflows or a banking crisis, it is clear that the capacity to repay the Fund would be affected but it is very difficult to quantify this effect.

80. For emerging market countries, post-program monitoring has been well integrated with the Fund's vulnerability assessment exercise. PPM provides important inputs for the vulnerability exercise, but also draws importantly from the work done Fund-wide during the exercise.

D. Conclusions

81. Even though post-program monitoring has been limited to a relatively small number of cases, given the recent introduction of the procedure, the experience to date suggests that it has been a valuable addition to Fund surveillance. Well defined criteria for application and clear expectations on coverage appear to have helped establish a surveillance exercise that is sharply focused on its specific purpose. While a broader experience is clearly necessary to draw firm conclusions, the results so far may offer more general lessons on the value of clear guidance for the quality of surveillance activities.

Questionnaire for the Review of Fund Surveillance in Program Countries

This questionnaire was established to examine the effectiveness of Fund surveillance in selected stand alone Article IV and combined Article IV/UFR reports during 2000-01.[25] It aims at summarizing in less than ten questions the key dimensions of an effective Article IV consultation discussion. In conducting the review, particular attention was paid to the reasons why a particular dimension of a surveillance report was not satisfactorily covered.

Question 1. Does the staff report include a comprehensive and meaningful presentation of economic developments and policies since the last Article IV consultation (i.e., a clear story line on recent economic developments and policies). If not, which of the following explanation(s) apply:

- Recent economic developments and policies are only related to program targets and objectives.
- Other relevant explanation to be noted.

Question 2. Does the staff report include a clear and substantiated presentation of the staff and the authorities' views on the short-term economic outlook, including the risks to the outlook? If not, which of the following explanation(s) apply:

- The staff's views are not reported or not well substantiated.
- The authorities' views are not reported or not well substantiated.
- The outlook is discussed only in relation to program targets.
- Other relevant explanation to be noted.

Question 3. Does the staff report contain a candid and balanced assessment of medium-term prospects, in particular current account sustainability? If not, which of the following apply:

- There is no discussion of the medium-term outlook and risks to the outlook.
- The discussion is restricted to the capacity to repay the Fund or other program issues.
- Other relevant explanation to be noted.

Question 4. Does the staff report include a candid assessment of the country's vulnerabilities to a currency, or balance-of-payments crisis driven by capital flows? If not which of the following apply:

- This is not an issue because the country does not have market access.
- There is no discussion of vulnerabilities.
- The vulnerability discussion is superficial and ignores key risks.

[25] See Table for the list of the reports reviewed.

- Other relevant explanation to be noted.

Question 5. Does the staff report contain a discussion of exchange rate policy that is well integrated with the other core macroeconomic policy areas—monetary and fiscal policy? If not, which of the following explanation(s) apply:

- There is no substantive discussion of exchange rate policy (regime and/or level, as appropriate).
- There is some discussion of exchange rate policy (regime and/or level) but not integrated with the other core macroeconomic policies.
- Exchange rate policy is discussed only in relation to the program.
- Other relevant explanation to be noted.

Question 6. Is the staff report discussion of structural issues and non-core issues explicitly related to their macroeconomic relevance? If not, which of the following explanation(s) apply:

- Structural policies are discussed only with reference to program targets.
- Other relevant explanation to be noted.

Question 7. Does the staff report include discussion of financial sector issues that permit conclusions as to whether the financial sector is a potential source of vulnerability and/or macroeconomic instability (i.e., by affecting the conduct of fiscal or monetary policy) and/or inefficiency (i.e., poor financial intermediation)? If not, which of the following explanation(s) apply:

- There is no discussion of financial sector issues.
- There is some discussion of financial sector issues, but it does not permit the above assessment.
- The discussion of financial sector issues is centered around a few key program benchmarks.
- Other relevant explanation to be noted.

Question 8. Does the staff report's section on policy discussions provide a clear account of a policy dialogue between staff and the authorities during the Article IV consultation mission? If not, which of the following explanation(s) apply:

- There is no account of a genuine policy dialogue.
- There is some account of a policy dialogue, though the areas of consensus and disagreement (as appropriate) are not well identified.
- The policy dialogue focuses on program and program-related issues.
- Other relevant explanation to be noted.

Question 9. Does the staff report contain a candid assessment of the adequacy of data provision to the Fund for effective surveillance and include recommendations for improving the statistical apparatus to provide the needed data? If not, which of the following explanation(s) apply:

- Data issues are not discussed.
- Data issues are discussed but not with reference to staff's ability to analyze economic developments and make policy recommendations.
- Data issues are discussed only in the context of program monitoring.
- Other relevant explanation to be noted.

Fund Surveillance in Program Countries: List of Reports Reviewed, 2000-01

Low-income countries		Middle-income countries		Transition countries		Emerging countries	
Stand-alone reports	Combined reports	Stand-alone reports	Combined reports	Stand-alone reports	Combined reports	Stand-alone reports	Combined reports
Bhutan (2001)	Cambodia (2000)	Bahrain (2000)	Bolivia (2001)	No market access			
Central African Rep. (2000)	Cameroon (2001)	Botswana (2000)	Djibouti (2001)			Algeria (2000)	Argentina (2000)
Eritrea (2001)	Ethiopia (2000)	Guatemala (2001)	Gabon (2001)	Azerbaijan (2000)	Albania (2001)	Chile (2001)	Brazil (2000)
Myanmar (2000)	Gambia (2001)	Iran. I. Rep of (2001)	Honduras (2001)	Belarus (2000)	Armenia (2001)	China, P.R. of (2001)	Colombia (2001)
Nepal (2001)	Madagascar (2001)	Namibia (2000)	Guyana (2001)	Kazakhstan (2000)	Georgia (2001)	Cote d'Ivoire (2000)	Ecuador (2000)
Sierra Leone (2000)	Malawi (2000)	Paraguay (2001)	Papua New Guinea (2000)	Macedonia, FYR (2000)	Kyrgyz Republic (2001)	Egypt (2001)	Indonesia (2000)
Vietnam (2000)	Mali (2000)	Saudi Arabia (2001)	Sri Lanka (2001)	Uzbekistan (2000)	Moldova (2000)	Hong Kong (2000)	Jordan (2000)
Zimbabwe (2001)	Mauritania (2001)	Suriname (2001)			Tajikistan (2001)	India (2001)	Mexico (2000)
	Mozambique (2000)	Swaziland (2000)				Israel (2001)	Pakistan (2000)
	Vietnam (2001)	Syria (2001)		Market access		Lebanon (2001)	Peru (2000)
	Yemen, Republic of (2000)	Tunisia (2000)				Malaysia (2001)	Uruguay (2000)
				Czech Republic (2001)	Bulgaria (2000)	Mexico (2001)	
				Estonia (2001)	Bulgaria (2001)	Morocco (2001)	
				Hungary (2000)	Croatia (2000)	Nigeria (2001)	
				Poland (2001)	Estonia (2000)	Panama (2000)	
				Romania (2000)	Latvia (2000)	Philippines (2001)	
				Russian Federation (2000)	Lithuania (2000)	Singapore (2001)	
				Slovak Republic (2001)	Ukraine (2000)	South Africa (2000)	
				Slovenia (2001)		Venezuela (2000)	
8	11	11	7	13	13	18	10

- 40 -

Appendix Table 1. SMPs Agreed During 1992-1998

	Starting date	Duration, months	Purpose	Subsequent program approved within 12 months 4/	Board information		
					Board informed in Article IV or subsequent UFR staff report	Board informed of benchmarks	LOI/MEFP provided to the Board
Trinidad and Tobago 1/	January 1992	12	Signaling	--	Yes	Yes	No
Trinidad and Tobago	a series of annual SMPs	12	Signaling	--	Yes	Yes	No
Trinidad and Tobago		12	Signaling	--	Yes	Yes	No
Trinidad and Tobago		12	Signaling	--	Yes	Yes	No
Trinidad and Tobago		12	Signaling	--	Yes	Yes	No
Trinidad and Tobago		12	Signaling	--	Yes	Yes	No
Trinidad and Tobago		12	Signaling	--	Yes	Yes	No
Sao Tome and Principe	January 1992	36	Close Dialogue	--	Yes	No	No
Kenya	May 1992	7	Track Record	ESAF	Yes	Yes	No
Tunisia	June 1992	31	Close Dialogue	--	Yes	No	No
Guinea-Bissau	March 1993	9	Track Record	ESAF	Yes	No	No
Cambodia	July 1993	12	Track Record	STF	Stand-alone SMP	Yes	No
Cameroon	July 1993	12	Track Record	SBA	Yes	Yes	No
Tanzania	January 1994	6	Track Record	ESAF	Yes	Yes	Yes
Sudan 2/	July 1994	12	Track Record/Arrears	--	Yes	Yes	Yes
Chad	October 1994	9	Track Record	ESAF	Yes	Yes	No
Macedonia, FYR	September 1994	7	Track Record	SBA/STF	No	No	No
Guatemala	January 1995	12	Signaling	--	Yes	Yes	No
Tunisia	January 1995	12	Close Dialogue	--	Yes	No	No
Tunisia	a series of annual SMPs	12	Close Dialogue	--	Yes	No	No
Tunisia		12	Close Dialogue	--	Yes	No	No
Tunisia		12	Close Dialogue	--	Yes	No	No
Barbados	April 1995	12	Close Dialogue	--	No	No	No
Barbados	April 1996	12	Close Dialogue	--	No	No	No
Ecuador	July 1995	12	Signaling	--	Stand-alone SMP	Yes	Yes
Guinea-Bissau	July 1995	6	Track Record	ESAF	Yes	Yes	No
Nicaragua	September 1995	16	Track Record	none	Yes	No	No
Nepal	January 1995	36	Track Record	none	No	No	No
Tajikistan 2/	October 1995	6	Track Record	SBA	Yes	Yes	No
Angola	October 1995	12	Track Record	none	Yes	Yes	Yes
Uruguay	April 1995	12	Track Record	SBA	Yes	Yes	Yes
Zaire (Congo, Dem. Rep)	January 1996	12	Track Record/Arrears	--	Yes	Yes	No
Rwanda 2/	April 1996	9	Track Record	Post Conflict	Yes	Yes	Yes
Tanzania 2/	January 1996	6	Track Record	ESAF	Yes	Yes	No
Sao Tome and Principe	April 1996	9	Close Dialogue	--	Yes	Yes	No
Zambia	April 1996	9	Track Record	ESAF	Yes	Yes	No
Poland	March 1996	10	Close Dialogue	--	Yes	No	No
Cameroon 2/	July 1996	12	Track Record	ESAF	Yes	Yes	Yes
Comoros	February 1997	6	Track Record	none	Yes	Yes	No
Netherlands Antilles	January 1997	12	Signaling	--	Yes	Yes	No
Sudan	March 1997	10	Track Record/Arrears	--	Stand-alone SMP	Yes	Yes
Pakistan 2/	April 1997	6	Track Record	ESAF	Yes	Yes	No
Honduras	May 1997	11	Track Record	ESAF	Yes	Yes	No
Costa Rica 2/	November 1997	6	Track Record	none	Yes	Yes	No
Haiti	April 1998	6	Track Record	none	Yes	Yes	No
Moldova	July 1998	6	Track Record	ESAF	Yes	No	No
Venezuela 2/	May 1998	8	Signaling	--	Yes	Yes	Yes
Central African Republic	January 1998	6	Track Record	ESAF	No	No	No
Sudan	January 1998	12	Track Record/Arrears	--	Yes	Yes	Yes
Georgia	March 1998	2	Track Record	ESAF	Yes	Yes	No
Malawi	April 1998	6	Track Record	ESAF	Yes	Yes	No
Liberia	March 1998	12	Track Record/Arrears	--	Yes	Yes	Yes
Turkey 3/	July 1998	18	Close Dialogue	--	Yes	Yes	Yes
Haiti	November 1998	11	Track Record	none	Yes	Yes	No

Source: Policy Development and Review Department

1/ A series of annual SMPs: after the expiration of a stand-by arrangement in April 1991, at the request of the authorities, the Fund staff collaborated with the authorities in formulating and monitoring their economic program to maintain financial discipline and to facilitate the disbursement of IBRD and IADB credits.
2/ The public was informed about these SMPs by a press release, a news briefs, or a press information notice.
3/ SBA was approved on 12/22/99 but it was not intended at the time the SMP was agreed.
4/ In a number of cases, a Fund-supported program was approved before the end of the SMP.

Appendix Table 2. SMPs Agreed During 1999-2001

				Subsequent Program		Board Information			
	Starting Date	Duration, Months	Purpose	Envisaged	Approved	Stand-Alone LOI/MEFP Circulated to The Board	LOI/MEFP Attached to Article IV Staff Report	Stand-Alone SMP Report with LOI/MEFP Attached	Publication on IMF Website
Angola 1/	April 2000	15	Track record	PRGF			Yes		Article IV/LOI/MEFP
Belarus	April 2001	6	Track record	SBA				Yes	LOI/MEFP/TMU
Burundi	July 2001	6	Track record	PRGF		Yes			LOI/MEFP/TMU
Cape Verde	August 2001	5	Track record	PRGF		Yes			LOI/MEFP/TMU
Central African Republic 2/	October 2001	6	Track record	PRGF		Yes			LOI/TMU
Comoros	July 2001	12	Track record	PRGF			Yes		Article IV/LOI/MEFP/TMU
Congo, Democratic Republic of 3/	June 2001	10	Close dialogue/ Arrears	--			Yes		LOI/MEFP/TMU
Cote d'Ivoire	July 2001	6	Track record	PRGF			Yes		LOI/MEFP/TMU
Haiti	October 2000	12	Track record	PRGF			Yes		LOI/MEFP/TMU
Jamaica 4/	July 2000	21	Signaling	--			Yes		LOI/MEFP
Lesotho 5/	January 2000	9	Track record	PRGF	3/9/01	Yes			LOI/MEFP
Liberia	January 2000	6	Track record/Arrears	RAP			Yes		LOI/MEFP/Staff Assessment
Macedonia, FYR	January 2002	6	Track record	SBA		Yes			LOI/MEFP/TMU
Nicaragua	July 2001	6	Track record	PRGF			Yes		Article IV/LOI/MEFP
Nigeria 5/	January 1999	12	Track record	SBA	8/4/00	Yes			MEFP
Paraguay 6/	April 2001	9	Signaling	--			Yes		LOI/MEFP/TMU
S. Tomé & Principe	January 1999	12	Track record	PRGF	4/28/00				LOI/MEFP
Slovak Republic 5/	May 2001	11	Signaling	--		Yes			LOI/SEP/TMU/News Brief
Sudan 7/	January 1999	36	Track record/Arrears	RAP			Yes		Article IV
Togo	April 2001	6	Track record	PRGF			Yes		LOI/MEFP/TMU
Trinidad and Tobago 8/	January 2000	9	Signaling	--			Yes		LOI/MEFP

Source: Policy Development and Review Department.

1/ Original 9-month SMP was extended until June 2001.
2/ LOI and MEFP were combined into one document.
3/ The SMP aims to restore economic stability and to help establish the conditions for a revival in economic activity and the initiation of a reconstruction process.
4/ The program period specified in the MEFP covers two fiscal years: April 2000 through March 2002. The discussions on the SMP were completed in June 2000. The MEFP was issued in July 2000. Since the first test date is September 2000, the start of the program is taken to be July 2000.
5/ The SMP was described in the next Article IV staff report.
6/ The purpose of this SMP was not explained in the Article IV staff report.
7/ A series of three annual SMPs.
8/ The program period specified in the MEFP covers a full fiscal year—October 1999 through September 2000. Since the MEFP was issued in March 2000 with the first test date in March 2000, the start of the program is taken to be January 2000, i.e., the first quarter with a test date.