

CONTEXT

1. **The global economic and financial system is under severe strain and the outlook is subject to significant uncertainty.** The COVID-19 pandemic, combined with the sharp deterioration in financial market conditions and the precipitous decline in commodity prices, is expected to have severe effects on most, if not all, Fund member countries. Moreover, the situation is evolving rapidly as the cascading effects of the combined shock play out and as governments adjust their policy responses in real time.
2. **The membership is rightly focused on responding to the crisis and is looking to the Fund for support.** The Fund has received an unprecedented number of financing requests—accounting for nearly half of the membership—in a very short period of time. To best serve the membership, it is critical that the Fund temporarily direct a greater share of its resources towards responding to these and related urgent requests in a timely fashion. Beyond financing, the Fund would also need to maintain close engagement with member countries in a rapidly changing environment to monitor, respond and provide policy advice to help confront their evolving needs.
3. **Proceeding with Article IVs and mandatory Financial Stability Assessments (FSAs) in this context is problematic.** Amid the high uncertainty about the length and magnitude of this crisis, focusing on Article IV consultations and FSAs would limit resources available for the crisis management work. Moreover, publishing outdated staff reports could add little value in a rapidly changing global economic environment.

LEGAL FRAMEWORK

4. **Surveillance is a key mandate of the Fund and is mandatory for both the Fund and its members under Article IV, Sections 3(a) and (b).**¹ In its bilateral surveillance the Fund assesses how a member's exchange rate and domestic economic and financial policies are promoting the member's BOP and domestic stability.² In turn, members are obliged to consult with the Fund when requested on these policies. Members also have to provide the Fund with the information necessary to conduct surveillance.³ In order to enable the Fund to effectively conduct multilateral surveillance, bilateral surveillance needs to cover all economies at a reasonable frequency. For members of a currency union that have delegated the conduct of certain policies to union-level institutions, the Fund holds regular discussions with the union-level institutions (in addition to the discussions with

¹ Under Article IV, Section 1, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. It also sets forth specific obligations regarding the members' conduct of their exchange rate and other economic and financial policies. Further, Article IV, Section 3(b) requires the Fund to conduct firm surveillance over members' exchange rate policies.

² See Integrated Surveillance Decision (ISD), Section A(i) Paragraph 6.

³ Article IV, Section 3(b). Also, under Article VIII, Section 5, the Fund may require members to furnish it with such information as it deems necessary for its activities.

the national authorities) which form an integral part of Article IV consultation with those members.⁴ For countries with systemically important financial centers, the Fund holds mandatory financial stability assessments as part of Article IV surveillance.⁵ Further, each member has an obligation to consult with the Fund in the context of the Fund conducting the oversight of the international monetary system, i.e., multilateral surveillance.⁶

5. The Articles do not establish any particular frequency for Article IV consultations.

Rather, the Fund's "request" for consultation is operationalized through decisions adopted by the Executive Board, such as the Decision on Bilateral and Multilateral Surveillance (the Integrated Surveillance Decision, or ISD) and the decision on Article IV consultation cycles.^{7,8} The frequency of mandatory FSAs follows the member's Article IV consultation cycle: once five years have passed since the last Board discussion of a FSA, the next discussion is expected to be held by the deadline for the upcoming the Article IV consultation.⁹ Thus, under the current legal framework, the Executive Board has the authority, by a decision of general applicability, to establish a particular consultation cycle for all countries or groups of countries. This includes the authority to extend the current consultation cycles.¹⁰

6. The deadlines for the completion of Article IV consultations and mandatory FSAs are expressed in terms of an expectation rather than a firm obligation. Where the Article IV consultation or mandatory FSA does not take place by the expected deadline established by the Executive Board, the Fund has put in place a legal framework to tackle excessive delays.¹¹ The framework for addressing excessive delays applies regardless of the reason for the delay.

⁴ Decisions No. 12899-(02/119), as amended, 13654-(06/1), as amended, 13655-(06/1), as amended, and 13656-(06/1), as amended. The obligation to consult remains with the member, not the union-level institutions.

⁵ Decisions No. 14736-(10/92) and 15495-(13/111).

⁶ See ISD, Paragraph 26. See also *Modernizing the Legal Framework for Surveillance—An Integrated Surveillance Decision*, SM/12/156, Paragraph 15. Article IV consultations are a vehicle of both bilateral and multilateral surveillance.

⁷ Under the ISD, consultations under Article IV shall in principle take place annually. See ISD, Paragraph 26. A three-month grace period applies to the standard 12-month consultation cycle. The decision on consultation cycles provides that, in certain circumstances the Fund may decide to place a member on an extended consultation cycle that is longer than 12 months but does not exceed 24 months. Decision No. 14747-(10/96).

⁸ The ISD also provides that, in principle, Article IV consultations "shall comprehend the regular consultations under Articles VIII and XIV," which address exchange restrictions and multiple currency practices. For those members that avail themselves of Article XIV's transitional provisions and that still maintain restrictions or MCPs thereunder, Article XIV requires annual consultations.

⁹ See Decision No. 15495-(13/111), Appendix II, Paragraph 8.

¹⁰ Based on the general framework described above, the Fund specifies the consultation cycle that will apply to a member at the conclusion of each Article IV consultation with that member. See Decision No. 14747-(10/96), Paragraph 4.

¹¹ The framework on excessive delays introduced three concrete steps to address cases of serious delay, all aimed at creating incentives for re-engagement while maintaining the Fund's cooperative approach. These steps are: (i) sending a letter from the Managing Director to the member; (ii) publishing a list of members with seriously delayed Article IV consultations; and (iii) holding an informal session to brief the Executive Board on the economy of a member with a seriously delayed Article IV consultation or mandatory FSA. See SM/12/24.

EXTENSION OF CONSULTATION CYCLES

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

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

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

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

¹³ *FCL*: Decision No. 14283–(09/29), as amended; and *PLL*: Decision No. 15017–(11/12), as amended.

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

calculations of consultation cycles for all members.¹⁵ Following the next Article IV consultation, it is expected that the consultation cycles for each member would be reestablished by the Board in accordance with the decision on consultation cycles.¹⁶

9. Related consultation cycles will be adjusted accordingly.¹⁷ ¹⁸ The deadlines for mandatory FSAs will be automatically adjusted following any extension to the Article IV consultation cycles. For discussions on the common policies of currency unions, the Board summings up typically specify that the next consultation discussion is expected to be held on a 12-month cycle.¹⁹ To avoid any doubt regarding the Board's expectations, the second proposed decision would also extend the expected deadline for discussions with each of the four currency unions by six months.

10. A temporary extension of Article IV consultation cycles would neither alter members' obligations under Article IV nor undermine the Fund's commitment as their trusted advisor. As such, each member will continue to have an obligation to consult with the Fund upon request on its exchange rate and other economic and financial policies, and, where relevant, to consult with the Fund in the context of multilateral surveillance. Members will also continue to have the obligation to provide the Fund with the information that is necessary for its operations, including surveillance, subject to capacity constraints. As noted above, there may be circumstances where the consultation would still be warranted. Notwithstanding the temporary hold on staff reports, country teams will continue to support members throughout this period, offering tailored and focused and policy advice to help them combat the crisis, including by leveraging technology and different modalities of engagement in a bid to sustain an ongoing dialogue.

11. To avoid adverse implications for Fund members' surveillance obligations, staff recommends that the Executive Board adopt a decision to extend Article IV consultation cycles for all members by six months and a decision to extend the consultation cycles for each of the currency unions by six months. The Board may need to re-evaluate these decisions prior to the end of the six-month period, as circumstances warrant. If the proposed decisions are adopted, area departments will reach out to member countries to notify them of the decisions and the change in expectations regarding the surveillance cycle. Concurrently, the decisions will also be communicated on the Fund's website.

¹⁵ For example, a member on the 12-month Article IV consultation cycle with a 3-month grace period (i.e., a total of up to 15 months), would have a further 6 months automatically incorporated into the cycle on a one-off basis (i.e. extending from 15 months up to a total of 21 months). For a member on the extended 24-month cycle (to which no grace period applies), the cycle would temporarily be extended to 30 months. The proposed extension may result in some countries' consultation cycles exceeding 24 months, the maximum envisaged under the current policies.

¹⁶ Decision No. 14747-(10/96).

¹⁷ Because Article XIV provides no leeway for extending the mandatory annual consultations, members that still maintain exchange restrictions or MCPs under this Article will consult with the Fund regarding these measures on a stand-alone basis, independent of the Article IV consultation, or in conjunction with a UFR request.

¹⁸ For members that maintain exchange restrictions or MCPs whose temporary retention has already been approved by the Board, those approvals can be extended by the Board upon their expiration on a stand-alone, lapse-of-time basis, or in the context of program reviews or other UFR staff reports, provided the relevant criteria for approval are still met.

¹⁹ See, e.g., SU/20/20 (ECCU); SU/19/26 (WAEMU).

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

Decision 1: Temporary Extension of Consultation Cycles for Article IV Consultations

1. Notwithstanding the provisions of Decision No. 14747-(10/96) adopted on September 28, 2010, as amended, the Article IV consultation cycle for each member shall be extended by six months. This extension shall apply only to the consultation cycle for the upcoming Article IV consultation for each member.

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

1. Staff hold annual discussions with the regional institutions responsible for common policies of each of: (i) the Central African Economic and Monetary Union; (ii) the Eastern Caribbean Currency Union; and (iii) the West African Economic and Monetary Union pursuant to Decision No. 13654-(06/1), Decision No. 13655-(06/1), and Decision No. 13656-(06/1), as amended, respectively. Further, there is an annual staff report and Board discussion on common policies of each of the currency unions. The next Board discussion with the regional institutions of each of the currency unions will take place within six months following the expected deadline established at the time of the last Board discussion for the respective currency union.

2. Pursuant to Decision No. 12899-(02/119), as amended, staff holds twice-yearly staff discussions with EU institutions responsible for common policies in the euro area, in the context of Article IV consultations with member countries. Further, there is an annual staff report and Board discussion on Euro-Area Policies in the context of Article IV consultations with member countries. The

next Board discussion on Euro-Area Policies will be held within six months following the expected deadline established at the time of the last Board discussion on Euro-Area policies.