January 2024

# OPERATIONAL GUIDANCE NOTE ON PROGRAM DESIGN AND CONDITIONALITY

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Report prepared by IMF staff and completed on January 3, 2024, has been released.

The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

The IMF’s transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities’ policy intentions in published staff reports and other documents.

Electronic copies of IMF Policy Papers
are available to the public from
http://www.imf.org/external/pp/ppindex.aspx

**International Monetary Fund**
**Washington, D.C.**

January 3, 2024

# OPERATIONAL GUIDANCE NOTE ON PROGRAM DESIGN AND CONDITIONALITY

## EXECUTIVE SUMMARY

This note aims to provide guidance on the key principles and considerations underlying the design of Fund-supported programs.

The note expands on the previous operational guidance notes on conditionality published over 2003-2014, incorporating lessons from the 2018-19 Review of Conditionality, and other recent key policy developments including the recommendation of the Management's Implementation Plan in response to Independent Evaluation Office (IEO)'s report on growth and adjustment in IMF-supported programs. The note in particular highlights operational advice to (i) improve the realism of macroeconomic forecast in programs and fostering a more systematic analysis of contingency plans and risks; (ii) improve the focus, depth, implementation, and tailoring of structural conditions (SCs), with due consideration of growth effects; and (iii) help strengthen the ownership of country authorities.

Designed as a comprehensive reference and primer on program design and conditionality in an accessible and transparent manner, the note refers in summary to a broad range of economic and policy considerations over the lifecycle of Fund-supported programs. As with all guidance notes, the relevant IMF Executive Board Decisions remain the primary legal authority on matters covered in this note.

Approved By
**Rishi Goyal (SPR)**

Prepared by an SPR team led by Toomas Orav, Faezeh Raei, Heiko Hesse, Michael Perks, and comprising Jochen Andritzky, Chuku Chuku, Sandesh, Dhungana, Mai Farid, Ioannis Halikias, Souvik Gupta, Geoffrey Keim, Jung Yoen Kim, Maxym Kryshko, Tomohide Mineyama, Andreja Lenarcic, Fei Liu, Sanan Mirzayev, Zsuzsa Munkacsi, Neree Noumon, Liam O'Sullivan, Johanna Schauer, Kiichi Tokuoka, Rima Turk, Ke Wang, Atticus Weller, Martha Tesfaye Woldemichael, Jiangyan Yu, and Alexander Zaborovskiy under general guidance of Chad Steinberg, Alex Culiuc, Bikas Joshi, Vitaliy Kramarenko, Uma Ramakrishnan, Petya Koeva Brooks, and Martin Čihák (all SPR, current or former); Gabriela Rosenberg, Kyung Kwak, Gomiluk Otokwala, Anjum Rosha, Chanda DeLong, Gustavo Pinto, Amira Rasekh, Jonathan Swanepoel, Qingxiang Li, David McDonnell, Jonathan Pampolina, Sebastian Grund and Nouria El Mehdi (all LEG). Administrative assistance was provided by Merceditas San Pedro-Pribram and Ryan Tonra (SPR).

# CONTENTS

**BOXES**



**FIGURES**



**TABLES**

# Acronyms and Abbreviations

| | |
|---|---|
| AMC | Asset Management Companies |
| AML/CFT | Anti-Money Laundering and Countering Financing of Terrorism |
| AQR | Asset Quality Review |
| ARA | Assessing Reserve Adequacy |
| AREAER | Annual Report on Exchange Arrangements and Exchange Restrictions |
| BCP | Basel Core Principles |
| BoP | Balance of Payments |
| BRM | Base/Reserve Money |
| CCPA | Climate Change Policy Assessments |
| CD | Capacity Development |
| CES | Country Engagement Strategy |
| CFM | Capital Flow Management |
| CFR | Collateralized Future Receipts |
| CG | Central Government |
| CoDA | Country Data Annex |
| COM | Communications Department |
| CP | Contingency Plan |
| CPIA | Country Policy and Institutional Assessment |
| CPR | Crisis Program Review |
| CSO | Civil Society Organization |
| CtR | Capacity to Repay |
| CU | Currency Union |
| DLP | Debt Limits Policy |
| DSA | Debt Sustainability Analysis |
| DSF | Debt Sustainability Framework |
| EA | Exceptional Access |
| EAT | Expenditure Assessment Tool |
| ECF | Extended Credit Facility |
| EFF | Extended Fund Facility |
| EM | Emerging Market |
| EMDC | Emerging Market and Developing Country |
| EPE | Ex Post Evaluation |
| ES | Enhanced Safeguards |
| FAD | Fiscal Affairs Department |
| FATF | Financial Action Task Force |
| FCL | Flexible Credit Line |
| FCS | Fragile and Conflict-affected States |
| FDI | Foreign Direct Investment |
| FIN | Finance Department |
| FSAP | Financial Sector Assessment Program |
| FSB | Financial Stability Board |
| FX | Foreign Exchange |

| | |
|---|---|
| GDP | Gross Domestic Product |
| GFN | Gross Financing Needs |
| GFSR | Global Financial Stability Report |
| GG | General Government |
| GoC | Guidelines on Conditionality |
| GFSM | Global Finance Statistics Manual |
| GNI | Gross National Income |
| GRA | General Resources Account |
| HAP | High Access Procedures |
| HIPC | Heavily Indebted Poor Countries |
| ICC | Inflation Consultation Clause |
| IDA | International Development Association |
| IDI | International Development Institution |
| IEO | Independent Evaluation Office |
| ILO | International Labor Organization |
| IPSAS | International Public Sector Accounting Standards |
| IT | Indicative Target |
| LEG | Legal Department |
| LIA | Lending Into Arrears |
| LIC | Low-Income Country |
| LIDCs | Low-Income Developing Countries |
| LMR | Labor Market Reforms |
| LOI | Letter of Intent |
| LOT | Lapse-of-Time |
| LTPE | Longer-term Program Engagement |
| MAC | Market Access Countries |
| MCM | Monetary and Capital Markets Department |
| MCP | Multiple Currency Practice |
| MEFP | Memorandum of Economic and Financial Policies |
| MIP | Management Implementation Plan |
| MONA | Monitoring of Fund Arrangements |
| MPCC | Monetary Policy Consultation Clause |
| MPP | Macroprudential Policy |
| NDA | Net Domestic Assets |
| NIR | Net International Reserves |
| NPC | Negative Pledge Clause |
| NPL | Non-performing Loan |
| NRPB | Non-resource Primary Balance |
| OECD | Organization for Economic Cooperation and Development |
| OGN | Operational Guidance Note |
| PA | Prior Action |
| PCI | Policy Coordination Instrument |
| PCL | Precautionary Credit Line |
| PFA | Post-Financing Arrangement |
| PFM | Public Financial Management |
| PLL | Precautionary and Liquidity Line |

| | |
|---|---|
| PMB | Program Monitoring with Executive Board Involvement |
| PMR | Product Market Reforms |
| PN | Policy Note |
| PPP | Public Private Partnership |
| PRA | Ex post Peer Reviewed Assessment |
| PRGF | Poverty Reduction and Growth Facility |
| PRGT | Poverty Reduction and Growth Trust |
| PRS | Poverty Reduction Strategy |
| PS-HCCE | Policy Safeguards for High Combined Credit Exposures |
| PSI | Policy Support Instrument |
| QPC | Quantitative Performance Criterion |
| RAM | Risk Assessment Matrix |
| RCF | Rapid Credit Facility |
| RES | Research Department |
| RFA | Regional Financing Arrangement |
| RFI | Rapid Financing Instrument |
| RoC | Review of Program Design and Conditionality |
| RSF | Resilience and Sustainability Facility |
| SB | Structural Benchmark |
| SBA | Stand-By Arrangement |
| SC | Structural Condition |
| SCF | Standby Credit Facility |
| SLL | Short-term Liquidity Line |
| SMP | Staff-Monitored Program |
| SOE | State-Owned Enterprise |
| SPC | Structural Performance Criterion |
| SPR | Strategy, Policy, and Review Department |
| SR | Staff Report |
| SRDSF | Sovereign Risk and Debt Sustainability Framework for Market-Access Countries |
| SRDSA | Sovereign Risk and Debt Sustainability Analysis |
| TA | Technical Assistance |
| TFP | Total Factor Productivity |
| TMU | Technical Memorandum of Understanding |
| TPI | Third-Party Indicator |
| UCT | Upper Credit Tranche |
| UFR | Use of Fund Resources |
| VAT | Value Added Tax |
| VE | Vulnerability exercise |
| WB | World Bank |
| WDI | World Development Indicators |
| WEO | World Economic Outlook |
| WGI | Worldwide Governance Indicators |
| WTO | World Trade Organization |

# INTRODUCTION

**1. The 2000-02 comprehensive review of the Fund's conditionality culminated in the adoption of a set of conditionality guidelines by the Executive Board on September 25, 2002.** The 2002 Conditionality Guidelines (the "guidelines") replaced the 1979 Conditionality Guidelines and the Interim Guidance Note on Streamlining Structural Conditionality of September 18, 2000. A review of experience with the guidelines, looking at how they have been implemented and at their impact, is conducted periodically, including most recently in the 2018 Review of Program Design and Conditionality.[1]

**2. Since the adoption of the "guidelines" in 2002, Fund staff has prepared several Operational Guidance Notes (OGNs) over 2003-2014 to elaborate on the operational aspects of the "guidelines" considering evolving program experiences over time**. The first OGN was published in 2003 and it has been revised four times since then (see Box 1). Each revision incorporated the most recent recommendations of the periodic reviews of conditionality and the conditionality impact in programs.

**3. As customary with earlier OGNs on conditionality, this note incorporates the recommendations of the most recent Review of Program Design and Conditionality (2018 RoC).** The latest periodic review of the experience with conditionality occurred in 2018 and was discussed by the Executive Board in May 2019. The 2018 RoC was the first comprehensive stocktaking of Fund lending operations since the global financial crisis, with valuable lessons for program design going forward. It assessed program performance between September 2011 and end-2017, a time when IMF-supported programs were dealing with members' deep-seated structural challenges and a persistently weak global environment. According to the 2018 RoC, three-quarters of programs were judged successful or partially successful in achieving program objectives (see 2018 RoC Supplementary Information, Section III), with program completion a key driver of success. In addition to this general assessment of performance, the 2018 RoC also made some key recommendations (see Table 1) to help improve program outcomes, in particular to: (i) **improve the realism of macroeconomic forecast**; (ii) **enhance the quality of fiscal adjustment**; (iii) **clarify strategies for dealing with debt vulnerabilities**; (iv) **improve the focus, implementation and tailoring of structural conditions (SCs)**, particularly for fragile and small states; and (v) **help strengthen the ownership** of country authorities.

**4. This OGN also elaborates on operational aspects of other relevant policy recommendations in recent years, including the Management Implementation Plan (MIP) in response to the Independent Evaluation Office (IEO)'s report on growth and adjustment in IMF-supported programs.** Overall, the IEO report published in 2021, pointed to the lack of evidence on a consistent bias toward excessive austerity and found that programs have yielded growth benefits relative to a counterfactual of no Fund engagement. Notwithstanding these positive

[1] The comprehensive nature of this Guidance Note and the exigencies of the Fund's response to the pandemic and other adverse shocks of recent years led to a long production process.

findings, the evaluation found evidence of growth optimism, broadly in line with the 2018 RoC, and made a number of recommendations to further enhance program countries' capacity to sustain growth while undertaking needed adjustment. The MIP to address these recommendations, building on the 2018 RoC recommendations, pointed to the need for actions on (i) **increasing the realism of growth projections** and fostering a more systematic analysis of contingency plans and social and distributional implications in Fund-supported programs; (ii) **encouraging deeper and more growth-oriented structural reforms** in line with the program objectives, leveraging a more effective collaboration with external partners, with due consideration of growth effects; and (iii) **further developing and deploying new analytical tools** needed to support greater attention to sustainable and inclusive growth in program work.

**Box 1. The Evolution of the Guidance Note on Conditionality**

- *2002*: The 2000-02 comprehensive review of the Fund's conditionality culminated in the adoption of a set of conditionality guidelines by the Executive Board on September 25, 2002. As discussed in the staff statement attached to the "guidelines", the key principles that should guide the Fund in designing and setting conditionality are: (i) national ownership of reform programs; (ii) parsimony in program-related conditions; (iii) tailoring of programs to a member's circumstances; (iv) effective coordination with other multilateral institutions; and (v) clarity in the specification of conditions.
- *2003*: The first guidance note was issued elaborating on the operational implications of the "guidelines."
- *2005*: A revision to the OGN was undertaken following the 2005 review of the "guidelines". Revisions underlined the importance of ownership in the success of Fund-supported programs and provided enhanced guidance on the design of conditionality.
- *2008*: This revision implemented the Board's recommendation to strengthen efforts to achieve parsimony by emphasizing criticality as well as requiring rigorous justification of conditionality.
- *2010*: This revision reflected the reform of the Fund's conditionality framework in March 2009 to discontinue performance criteria for structural measures in all Fund arrangements effective on May 1, 2009, including those under facilities designed for low-income countries, and to place greater reliance on a review-based approach to monitor structural reforms in Fund-supported programs.
- *2014*: These revisions primarily focused on incorporating guidance on conditionality in relation to macro-social (also called jobs and growth) issues, better leveraging surveillance and technical assistance in program design, and improving partnerships with other institutions, particularly regional financing arrangements (RFAs). The revision also added guidance on the review-based approach to monetary policy conditionality in countries with inflation-targeting frameworks or evolving monetary policy regimes, consistent with Fund policy papers on those topics.

5. **Distinct from earlier OGNs on conditionality, this operational guidance note provides broad guidance to staff on other aspects of program design and conditionality.** In response to a long-standing need, this guidance note aims to provide an easily accessible, cohesive, and transparent resource on program design for IMF staff, members' authorities, and the public,

complementing the wide range of Fund guidance already available. As a result, this note is substantially longer than earlier OGNs, incorporating extensive Annexes, and highlights examples throughout. It is intended to assist staff in the design of programs by laying out the major topics to consider and providing links to current Fund guidance, as well as suggestions based on good practice, when applicable. This note does not cover conditionality under the newly established Resilience and Sustainability Facility (RSF).[2]

**6. The rest of this note is divided into three sections.** Section II discusses the key elements of program design. Section III provides guidance to staff on designing conditionality in line with the overarching principles and the recent RoC and MIP recommendations. Section IV covers detailed procedural issues and current areas of policy focus.

**Table 1. Overview of Recommendations of 2018 RoC and 2022 MIP and Their Coverage in this OGN** 1/

| | | RoC Recommendations | OGN Coverage |
|---|---|---|---|
| **Realism of program baselines** | RoC | • Increase scrutiny of the realism of program baselines. Better calibrate risks, discuss downside scenarios, and develop contingency plans.<br>• Strengthen the discussion and analysis of the impact of program policies on growth, including fiscal multipliers and the payoffs from structural reforms.<br>• Increasing the realism of growth projections and fostering a more systematic analysis of contingency plans and social and distributional implications in Fund-supported programs. | • Operational advice on developing continency plans and adverse scenarios in program documents; advice on inclusion of more prominent risk and realism discussions in program documents.<br>• Discussion of tools for analysis of realism of growth projections, fiscal adjustments, and social and distributional impacts<br>• See section on Diagnosing and Managing Risks to Programs - Realism, and Annex X<br>• **New requirements**: inclusion of contingency plans in program Policy Note (PN) if needed as determined in consultation with senior reviewers. Generally enhanced discussion of risks, adverse scenarios, and realism in program documents. Inclusion of Risk Assessment Matrix (RAM) is also encouraged. |
| | MIP | • Program documents to discuss prominently the realism of baseline growth projections.<br>• Policy Notes should include—where appropriate and subject to confidentiality—contingency plans.<br>• Further develop and deploy new analytical tools needed to support greater attention to sustainable and inclusive growth in program work. | |
| **Structural Conditionality and Reforms** | RoC | • Identify, prioritize, and sequence reforms based on criticality.<br>• Apply greater realism in implementation timetables and estimated reforms payoffs, while considering longer Fund engagement to support structural reform agendas.<br>• Continue to build expertise in critical shared areas of responsibility (e.g., LMR and PMR). | • Extensive operational guidance provided on prioritizing, sequencing, and estimating gains from SCs in section on Structural Conditionality.<br>• OGN also provides guidance and recommends enhanced discussion of "depth" of SCs in program policy notes in section on Structural Conditionality. |

[2] See Resilience and Sustainability Facility – Operational Guidance Note (IMF, 2023).

**Table 1. Overview of Recommendations of 2018 RoC and 2022 MIP and Their Coverage in this OGN** (continued)

| | | RoC Recommendations | OGN Coverage |
|---|---|---|---|
| | MIP | • Encourage deeper and more growth-oriented structural reforms in line with the program objectives, leveraging a more effective collaboration with external partners, with due consideration of growth effects.<br>• Policy Notes to indicate the depth of each Structural Condition (SC) according to the criteria used in the past RoCs. | • **New requirements:** required to include the "depth of each SC" per country team's assessment in the already commonly used SC tables in PN stage. Additional optional tools are provided to help teams enhance the discussion. |
| | MIP | • Further develop and deploy new analytical tools needed to support greater attention to sustainable and inclusive growth in program work. | |
| **Attention to Sustainable and Inclusive Growth; Social Protection** | RoC | • Increase focus on the quality of social spending and the impact of program policies on poor and vulnerable groups. | • Operational guidance provided in section on Fiscal Conditionality. |
| | MIP | • Further develop and deploy new analytical tools needed to support greater attention to sustainable and inclusive growth in program work. | • OGN provides information on the range of available analytical tools. |
| **Fiscal Conditionality** | | • Use more granular fiscal conditionality where relevant to achieve higher quality fiscal adjustment (e.g., a floor on capital spending or revenue performance, or ceiling on current expenditure),<br>• Increase focus on the quality of social spending and the impact of program policies on poor and vulnerable groups. | • Operational guidance provided in section on Fiscal Conditionality. |
| **Program Development, Engagement and Communication Program Ownership** | RoC | • Encourage well-integrated national reform plans as an anchor for Fund arrangements.<br>• Improve two-way communication with the broader public to support buy-in.<br>• Encourage voluntary use of SMPs, particularly in the GRA, to ensure monitoring of macroeconomic policies, while the authorities build political support for the critical reforms, whose delay has interrupted the program.<br>• Robust analysis of institutional and political capacity to deliver program objectives on a realistic timetable. Provide additional guidance on the use of PAs and analyzing institutional and political capacity. | • Extensive operational guidance provided on assessing and enhancing institutional and political capacity and improving program ownership in section on Program Development, Engagement, and Communication.<br>• Advice on use of SMP to build track record, in line with SMP OGN and the policy on PMB. |

**Table 1. Overview of Recommendations of 2018 RoC and 2022 MIP and Their Coverage in this OGN** (concluded)

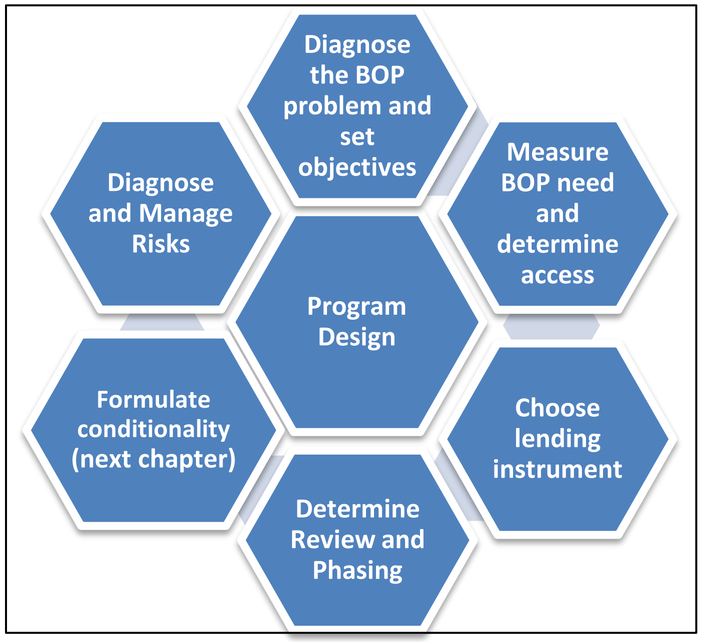
| | | RoC Recommendations | OGN Coverage |
|---|---|---|---|
| **Program Design in Fragile and Small States** | RoC | • Improve tailoring of structural conditionality (SC) for fragile and small states: for fragile states, analyze sources of fragility more systematically and streamline objectives and related SCs, by focusing on short-term realistic measures, taking into account capacity constraints; and for small states, focus SCs on resilience building to natural disasters, where appropriate. | • Operational guidance provided in section on Conditionality Design in Fragile States, drawing from ongoing workstreams on FCS. The 2023 staff guidance note on the implementation of the IMF strategy for FCS provides enhanced advice.<br>• |
| **Financial Sector Conditionality** | RoC | • Consider NPL resolution and related conditionality at the outset, where appropriate, recognizing the tradeoff between the speed of NPL resolution and economic outcomes, the complexity of the process, and the time needed to successfully complete reforms. | Operational guidance provided in section on financial sector conditionality. |
| **Debt Issues in Programs** | RoC | • Sharpen debt sustainability tools.<br>• Consider structural conditionality on improving governance arrangements for the contracting of debt and ensuring appropriate monitoring of obligations, including closer scrutiny of contingent liabilities (e.g., SOE liabilities and off-budget guarantees).<br>• Review the Fund's Debt Limits Policy, including examining possible guidance on collateralized debt in Fund-supported programs. | Operational guidance on design of conditionality provided in section on debt; other recommendations were implemented through delivery of relevant policy workstreams. |

**1/ RoC: Review of Program Design and Conditionality (2018 RoC); MIP: Management Implementation Plan (MIP) in response to IEO's report on growth and adjustment in IMF-supported programs.**

# KEY ELEMENTS OF PROGRAM DESIGN

*This chapter provides guidance on the broad elements of program design. It lays out the overarching legal framework for the Use of Fund Resources (UFR), as well as key considerations at each stage of program design, including: (i) diagnosing the balance of payments (BoP) problem and setting program objectives; (ii) selecting the appropriate lending instrument; (iii) estimating the BoP need and level of access to Fund resources; (iv) review and phasing; and (v) diagnosing and managing risks to program.*

**7. The following subsections focus on elements of program design as highlighted above and lay out relevant policies within each.** While presented sequentially, in practice the elements of program design come together jointly and decisions about one often feeds back and forth into others. Given the interrelations, where relevant references are provided to other elements in this chapter and subsequent ones. In particular, the design of conditionality by economic sectors is explored in the next chapter. Extensive operational details are left to Annexes. Before diving into elements of program design, an overview of the Fund's legal framework on UFR is helpful.




## A. Use of Fund Resources—The Legal Framework

**8. Fund resources are provided to members to assist them in resolving their BoP problems, in a manner consistent with the Articles of Agreement and subject to adequate safeguards for the temporary use of Fund resources (UFR).**[3] Article V, Section 3(b)(ii) specifies the conditions governing a member's use of the Fund's general resources, which include the requirement that the member represents that it has a need because of its BoP, or its reserve position or developments in its reserves (see Box 3). Under the Articles, a BoP need is a need arising from a member's balance of payments or its reserve position or developments in its reserves.[4] The Conditionality Guidelines provide that Fund-supported programs should be directed primarily towards the following macroeconomic goals: (i) solving the member's BoP problem without recourse to measures destructive of national or international prosperity and (ii) achieving medium-term external viability while fostering sustainable economic growth. IMF-supported programs also help to restore or catalyze support from other creditors and donors. Article V, Section 3(a) requires the Fund to adopt policies on the use of General Resources Account (GRA) resources that will assist members in solving their BoP problems in a manner consistent with the Articles and establish adequate safeguards to ensure that the Fund is repaid. In this regard, among the policies the Fund has

[3] Article V, section 3(a). Accordingly, the Guidelines on Conditionality, paragraph 1, provide that "[...] Conditionality that is, program related conditions, is intended to ensure that Fund resources are provided to members to assist them in resolving their BoP problems, in a manner that is consistent with the Fund's Articles and that establishes adequate safeguards for the temporary use of the Fund's resources."

[4] Article V, Section 3(b)(ii). BoP problems may arise, inter alia, due to unfavorable shocks, inappropriate policies, or a combination of the two, resulting in members failing to obtain sufficient financing on affordable terms to meet their international payment obligations.

adopted are those on access, phasing, conditionality, full program financing, external arrears, debt sustainability, misreporting, safeguards assessments, post-financing assessments, repurchases and overdue financial obligations.

- ***Conditionality.*** Beyond reserve tranche purchases,[5] the Fund is precluded from making its resources available in the absence of conditionality, i.e., in the absence of assurances that: (a) the resources will be used to resolve—rather than delay the resolution of—the member's BoP problem, and (b) the member will be in a position to repay the Fund in accordance with the relevant maturity schedule.[6] Conditionality has both ex ante and ex post elements: (i) any request to access Fund resources is approved only if the Fund is satisfied with the content of the member's policies and the capacity and commitment to implement them; and (ii) any subsequent disbursement is approved based on whether the policy understandings reached with the member (which must be specified in a "Fund arrangement") are met. Conditionality, therefore, serves the important function of providing the member country with a policy commitment tool that helps overcome time consistency problems, giving confidence that the authorities will implement the policies necessary to address the member's BoP difficulties.[7] Conditionality is at the heart of IMF lending, and the Fund's practices and policies in this regard have evolved over time. The next chapter offers comprehensive guidance on the design of conditionality.
- ***Phasing and access:*** Financing under Fund arrangements is typically "phased," with the member receiving additional tranches of financing as its BoP needs unfold over time and as it meets additional or incremental conditions. This phasing helps to reduce risks to the Fund by linking financial exposure to the member's actions to solve its BoP problem and strengthen its position to repay the Fund.[8] Program reviews provide a framework for the IMF Executive Board to assess whether the program is broadly on track and whether modifications are necessary.[9] Moreover, access to Fund resources is subject to **limits**, **exceptional access policy** and norms (in the case of the PRGT) policies to ensure adequate safeguards to Fund resources (sections E and F provide further guidance).

[5] The requirement of conditionality distinguishes a member's ability to use the Fund's general resources from its ability to use its own reserves, including SDRs or the reserve tranche position, which are available to members for balance of payments purposes on an unconditional basis.

[6] The Fund's Mandate – Legal Framework, paragraph 39.

[7] Financing under Flexible Credit Line (FCL) does not entail ex-post conditionality nor a Fund-supported program and relies on stringent qualification requirements (*ex ante* conditionality) which provides confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter. In addition, 2-year FCL arrangements are subject to mid-term review of qualification (see Section C). Other instruments not requiring *ex-post* conditionality include SLL, RFI and RCF; further discussion of the features of specific instruments and facilities is below (see Section D).

[8] See "Conditionality in Fund-Supported Programs—Purposes, Modalities, and Options for Reform" (2009), paragraph 9.

[9] See Guidelines on Conditionality, paragraph 11(c)(i).

- **Debt sustainability** is a prerequisite for medium-term viability, the success of the program, and safeguarding Fund resources. It is required for all Fund financing and is assessed using Board-approved debt sustainability frameworks (MAC-DSA or LIC-DSF).
- **Overdue financial obligations.** The Fund cannot lend to members with overdue financial obligations to the IMF.[10]

**9. UFR requirements are operationalized differently under the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT).** All IMF members are eligible to request Fund financing in the GRA.[11] The IMF also provides concessional financial support through the PRGT, with eligibility to these resources being limited to a subset of IMF members, specifically, low-income countries (LICs).[12,13] While there are similarities between GRA- and PRGT-supported programs, important distinctions exist. For example, GRA-supported programs are designed to resolve the member's BoP problems, that is, the policy measures needed for this purpose should be undertaken during the program period. In contrast, the purpose of programs supported by the Extended Credit Facility (the primary instrument in the PRGT) is to help PRGT-eligible members with protracted BoP problems to make significant progress towards a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth (see Box 2).

**10. Access to Fund resources requires the presentation of a *BoP need*.** Article V, Section 3(b)(ii) specifies that a member may use the Fund's GRA only to the extent that it has a BoP need, arising from "its balance of payments or its reserve position or developments in its reserves" (see Box 4 for elaboration on legal concept of *BoP need,* and Box 5 for economic quantification of BoP need). This broad definition of BoP need has proven to be sufficiently flexible to enable the Fund to provide financing in a variety of situations over time. Access to PRGT resources is also subject to the presence of a *BoP need* over the course of the program. In the PRGT, while the general principles for financing are similar to those under the GRA, the legal basis and framework are different. Under the PRGT instrument, the purpose of PRGT financing looks not only to the BoP of eligible members but

[10] The Fund's strategy on overdue financial obligations is comprised of three elements: prevention, intensified collaboration (including the rights approach), and remedial measures. Please see the most recent Review of the Fund's Strategy on Overdue Financial Obligations, July 20, 2017.

[11] One of the purposes of the Fund in Article I(v) of the Articles of Agreement is "To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

[12] See Section C on eligibility criteria for use of PRGT resources.

[13] The PRG Trust includes Special Disbursement Account (SDA) resources, which under the IMF's Articles of Agreement may be used, inter alia, for operations and transactions that are otherwise not specifically authorized by other provisions of the Articles but are consistent with the Fund's purposes. One of the operations that is specifically identified in the relevant provision of the Articles (e.g., Article V, Section 12(f)(ii)) is the provision of balance of payments assistance on special terms to developing members in difficult circumstances, taking into account for these purposes the member's per capita income. This provision has provided the basis for the Fund's concessional financing, including under the PRGT, HIPC (Debt Relief under the Heavily Indebted Poor Countries Initiative), and MDRI (Multilateral Debt Relief Initiative); see paragraph 45 in The Fund's Mandate – Legal Framework).

also to the achievement or maintenance of stable and sustainable macroeconomic positions consistent with strong and durable growth and poverty reduction (Section I, paragraph 1(a) of the PRGT Instrument).

**11. It should be noted that while it is not necessary for an actual BoP need to exist when an arrangement is approved, an actual BoP need is required to make a purchase under the GRA, and for all non-ECF PRGT disbursements.** Under both GRA and PRGT, the presence of an actual BoP need is not necessary for the approval of a Fund arrangement. Thus, unless otherwise specified in an individual facility, e.g., the SLL which requires that the BoP need be potential at the time of approval of an arrangement, a Fund arrangement may also be approved based on a *prospective* or *potential* BoP need. However, a purchase in the GRA requires a member's representation of an *actual* BoP need (Article V, section 3(b)(ii)). The same rule applies for PRGT disbursements, except in the case of Extended Credit Facility (ECF), where the presence of a *protracted BoP problem* entails a financing need over the course of the arrangement, though not necessarily at the time of approval or individual disbursements.[14]

**12. As a complement to Fund-supported programs, the newly established Resilience and Sustainability Trust (RST) acts as a third pillar of the IMF lending toolkit, by focusing on longer term structural challenges**.[15] Operationalized in October 2022, resources from the RST are expected to help address qualifying longer-term structural challenges, initially those associated with climate change and pandemics preparedness. The RST provides loans to eligible members in order to enhance their economic resilience and sustainability by (i) supporting policy reforms that reduce risks associated with longer-term structural challenges facing the member and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges-thereby contributing to the member's prospective BoP stability.[16] RST loans provide general BoP support and are not earmarked for specific projects but used to address a range of BoP needs including (i) covering any shorter-term BoP/fiscal needs directly associated with the implementation of RST-supported policy reforms, (ii) increasing policy space for fiscal spending and reforms associated with qualifying longer-term structural challenges and (iii) augmenting longer-term buffers to strengthen the member's ability to face shocks linked with qualifying structural challenges.[17] Access to resources under RST is subject to qualification criteria, including for the member country to have a concurrent Upper Credit Tranche (UCT)-quality IMF-supported arrangement or instrument

[14] A *Protracted BoP problem* is defined in the context of PRGT programs as actual and/or potential BoP needs associated with entrenched macroeconomic imbalances whose resolution is normally expected over the medium- or longer term. See A New Architecture of Facilities for Low-Income Countries, paragraph 8. A protracted BoP problem would exist when the resolution of the underlying macroeconomic imbalances would normally be expected to last three years or more, and in any case more than two years. See A New Architecture of Facilities for Low-Income Countries, Footnote 7.

[15] See Proposal to Establish a Resilience and Sustainability Trust.

[16] See Proposal to Establish a Resilience and Sustainability Trust, Paragraph 1 (a), Attachment A.

[17] See Proposal to Establish a Resilience and Sustainability Trust, Paragraph 30.

("UCT program") under an SBA, EFF, FCL, PLL, SCF, ECF, or PCI with at least 18 months remaining prior to expiry.[18]

### Box 2. GRA and PRGT Mandates

All Fund-supported programs, whether funded by GRA or PRGT, are required to assist in resolving a member's balance of payments problems and provide adequate safeguards for Fund resources, however these objectives are operationalized differently between GRA and PRGT lending:

- **GRA:** Programs supported by GRA resources are designed to resolve the member's BoP problem during the program period. Specifically, the policy measures that need to be taken to resolve a member's BoP problem should be undertaken during the program period, and implemented in a manner that will lead to a strengthening of the member's BoP position by the time repurchases begin to fall due and be of a sufficient extent to allow the member to make the repurchases without strain.[1/] For GRA financing, the approval of an arrangement on a precautionary basis (e.g., SBA, FCL, PLL) is possible without an actual BoP need, however any member requesting a purchase must represent it has an actual BoP need (see Box 3 for definition).
- **PRGT:** PRGT-supported programs put a greater emphasis on growth and poverty reduction. For example, the purpose of programs supported by the Extended Credit Facility (ECF)—the primary instrument in the PRGT—is to help PRGT-eligible members with protracted BoP problems implement their economic programs and *make significant progress toward a stable and sustainable macroeconomic position, consistent with strong and durable poverty reduction and growth*.[2/] In this case, the protracted nature of BoP problems of the member means that the adjustment effort required to attain full macroeconomic sustainability might extend beyond the duration of the ECF arrangement with successor ECF arrangements being possible.[3/] Other PRGT instruments such as Standby Credit Facility (SCF) or Rapid Credit Facility (RCF) enable low-income countries facing short term (SCF) or urgent (RCF) BoP problems in achieving, maintaining, restoring, and making progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The differences in objectives with GRA programs are reflected in differences in the balance between financing and adjustment. PRGT programs are often more catalytic—non-IMF official support represents a greater share of total financing—and often entail less adjustment, as financing is used to support growth and poverty reduction objectives (see Figure 1 in 2018 RoC).

1/ See Criteria for the Amount of Access in Individual Cases in Selected Decisions 42nd edition, (EBS/83/233), page 406 and Paragraph 7 of the 2018 Review of Program Design and Conditionality.
2/ PRGT Instrument (Decision No. 8759-(87/176), Section I, paragraph 1.
3/ Resources held in the IMF's Special Disbursement Account (SDA) may be used, inter alia, for operations and transactions that are otherwise not specifically authorized by other provisions of the Articles but are consistent with the Fund's purposes. One of the operations that is specifically identified in the relevant provision of the Articles (e.g., Article V, Section 12(f)(ii)) is the provision of balance of payments assistance to developing members on special terms, which has provided the basis for the Fund's concessional financing, including under the PRGT, HIPC (Debt Relief under the Heavily Indebted Poor Countries Initiative), and MDRI (Multilateral Debt Relief Initiative); See paragraph 45 in The Fund's Mandate – Legal Framework).

[18] Programs meet the UCT-conditionality standard when they are designed to provide substantial justification that a member's BoP problems are being addressed and resolved, and adequate confidence to the Fund that the improvements in resolving such BoP difficulties will allow the member to repay Fund resources by the time repurchases fall due.

**Box 3. Definition of Balance of Payments "Need" Under the Articles[1/]**

Article V, Section 3(b)(ii) specifies that a member may use the Fund's resources only if it represents that it has a need because of its balance of payments (BoP), or its reserve position or developments in its reserves. The meaning of these conditions, based on the text of the Articles and the relevant legislative history may be summarized as follows:

- A need based on the member's "**balance of payments**" exists when the member has a BoP deficit according to accepted definitions of BoP, taking into account the distinction between "above the line" and "below the line" transactions (below the line transactions include changes in reserve assets, official external borrowing, debt restructuring, and grants from foreign official agencies).
- A need based on the member's "**reserve position**" exists when the member has a gross reserves position that is relatively weak. This requires the exercise of judgment and is a country-specific analysis, as reserve adequacy depends on factors such as a country's volume and variability of exports and imports, past behavior of reserves, seasonal factors, and the size of short-term liabilities. The Fund has considerable room for the exercise of judgment in determining need based on a member's reserve position. (see IMF framework for assessing reserve adequacy)
- A member's need based on "**developments in its reserves**" may exist if there is an unfavorable development (e.g., an impending discharge of liabilities), even though the member does not have a BoP deficit or inadequate reserves.

These criteria are exclusive—i.e., no other form of need can justify a purchase—but alternative—i.e., any of these criteria is sufficient. In practice, the criteria provide some flexibility and discretion in determining BoP need and has enabled the Fund to provide financing in a variety of situations over time. The concept is defined relatively broadly, particularly on reserve adequacy as discussed above. Staff should also use the Fund's reserve adequacy metric as an easy-to-communicate benchmark.[2/]

---

1/ See Box 3 in The Fund's Mandate – Legal Framework. For concessional financing under the PRGT, the BoP needs test applicable to the SCF and RCF is the same as for GRA financing, For the ECF, Fund financial support is intended to address a "protracted" BoP problem. Under this approach, the Fund examines the components of the BoP rather than the overall BoP position, and a variety of indicators. See Staff Guidance Note on the Use of Fund Resources for Budget Support, EBS/10/55, Paragraph 8.

2/ See Guidance Note on the Assessment of Reserve Adequacy and Related Considerations (IMF, 2016).

## B. Diagnosing BoP Problems and Setting Program Objectives

13. **The causes of BoP problems are varied and complex, and can be domestic, external, or both.** Domestic factors could include inappropriate fiscal and monetary policies that can lead to buildup of large imbalances over time, e.g., in the form of fiscal and current account deficits. An exchange rate kept at an inappropriate level can erode competitiveness and lead to persistent current account deficits and depletion of reserves. Political instability and/or weak institutions can also trigger crises when vulnerabilities abound. External factors include natural disasters, commodity price shocks, or spillovers from other countries. BoP problems can manifest in the country's current account (weak exports, rising imports, decline in remittances), or in the capital and financial account, when a country faces a reduction in financing. Often interaction of multiple factors is at play, such as:

- Large terms of trade shocks (e.g., commodities shocks in 2008, 2014/15, and 2021/22).
- Large and persistent fiscal and current account deficits due to inappropriate macroeconomic policies, structural factors, and/or large developmental needs, particularly in LICs.

- Government debt vulnerabilities and difficulties in budget financing, e.g., due to large financing needs that cannot be met at affordable rates (e.g., Ghana 2023 ECF, Argentina 2022 EFF, Ecuador 2020 EFF, Argentina 2018 SBA; Greece 2012 EFF; Iraq 2005 and 2007 SBAs; and Jamaica 2013 EFF).[19]
- Overvalued exchange rates and large current account deficits (e.g., Ethiopia 2019 ECF-EFF; Angola 2018 EFF; Egypt 2016 EFF).
- External imbalances due to oversized financial sectors (Cyprus 2013 EFF; Iceland 2008 SBA).
- Natural disasters (e.g., Haiti 2010 ECF; Nepal 2015 RCF; Samoa 2013 RCF), geopolitical developments (e.g., Ukraine 2014 and 2022), and outbreak of contagious diseases (e.g., provision of emergency financing RFI/RCF to more than 70 countries in the aftermath of the COVID-19 pandemic, and in the aftermath of other contagious disease outbreaks as in Guinea 2014 RCF; and augmentation of access to Liberia 2012 ECF and Sierra Leone 2013 ECF; Liberia 2015 RCF).
- Deposit runs, sudden capital stops, confidence crises: investors and/or depositors may lose confidence in a country's policies and prospects leading to asset sales, capital flight, or deposit runs (e.g., Argentina 2018 SBA; Brazil 2002 SBA; Iceland 2008 SBA; Ireland 2010 EFF; and Latvia 2008 SBA).
- While not necessarily posing imminent BoP problems, longer-term structural challenges such as those associated with climate change could also give rise to BoP needs, e.g., owing to the need for additional fiscal spending or capital imports to facilitate climate transition. Not addressing such challenges could have adverse consequences for the member's prospective BoP stability.

**14. Documents requesting a Fund arrangement/financing should include an in-depth diagnosis of the BoP problem to underpin the envisaged package of policy adjustment and financing.** In Policy Notes (PN) and Staff Reports (SR), staff should prominently discuss the underlying factors, e.g., domestic vulnerabilities, and external shocks, that have caused (or may cause) BoP problems. The depth and emphasis of discussion would depend on country circumstances and aspects relevant for the country's external stability. Use of Fund's external sector assessment tools is strongly encouraged in analyzing and quantifying the extent of external imbalances (e.g., extent of misalignment of the exchange rate and current account from levels implied by fundamentals).[20] Staff may find it useful to discuss the imbalances by focusing on

[19] Fund resources can and have been used for budget support, either directly or indirectly, and both in GRA and PRGT-supported programs (e.g., Argentina 2018 SBA and 2022 EFF, Greece 2010 SBA and 2012 EFF, Tunisia 2016 EFF). In such cases, staff should clearly identify the nature of the budget support being requested and justify the associated balance of payments need. In the case of use of Fund resources for direct budget support to Treasury, program documents should provide the institutional rationale and discuss how direct budget support would be consistent with the program objectives. The links between the proposed budget support and program targets (e.g., net international reserves and net domestic assets of the central bank) should also be highlighted. Staff should also discuss the risks of prolonged dependence on Fund financing. Staff should refer to the Staff Guidance Note on the Use of Fund Resources for Budget Support EBS/10/55 (See also Annex L).

[20] See External Balance Assessment.

economic sectors (government, household, corporate, financial), their linkages and/or on the interplay of exogenous shocks and domestic policy imbalances.

**15. Analysis of the BoP problems should be linked to a discussion of the *nature of the BoP need* to inform the choice of financing modalities and duration of adjustment needed.** A BoP need can be categorized as either (i) ***actual*** BoP need that the member is presently facing (a need that has materialized) *i.e.,* exists in the current period; (ii) ***prospective*** –projected to arise in the future, including under the baseline macroeconomic scenario of the Fund-supported program; or (iii) ***potential*** – may arise under an alternative, typically downside, macroeconomic scenario, but is not expected under the baseline scenario. An actual need may also be ***urgent****,* specifically when the failure to address the external financing gap would result in an immediate and severe economic disruption. In addition, a BoP need can be ***short-term***, which for the purposes of the SCF is a need expected (or in the case of a potential BoP need that would be expected) to be resolved within two years, and in any case in less than three years. In contrast, a BoP problem is considered to be ***protracted***[21] if the resolution of underlying macroeconomic imbalances would be expected to last three years or more.[22] The nature of BoP need is a key component in determination of financing instrument and relatedly the duration of adjustment, as discussed in Section C.

## C. Identifying Program Objectives

**16. Guided by the primary goal to address the country's BoP problems,[23] staff should develop *specific program objectives* that will in turn guide quantitative and structural conditionality**. The specification of objectives should draw closely on the analysis of the causes of BoP problems, and aim to address the key macroeconomic imbalances, structural weaknesses, and governance vulnerabilities. While broad objectives are useful for communicating the high-level messages, staff should strive to define narrower *operational objectives* that provide a measurable link to conditionality and adjustment policies. Table 2 provides some examples.

[21] A protracted balance of payments problem applies only to PRGT lending and is defined as an actual or potential balance of payments need associated with entrenched macroeconomic imbalances, resolution of which is expected to extend over the medium- or longer term. See A New Architecture of Facilities for Low-Income Countries, paragraph 8.

[22] Please note that footnote 22 of the 2023 LIC Handbook indicates: "In borderline cases, where establishing a stable and sustainable macroeconomic position is expected to require more than two but less than three years, judgment is required on the nature of the balance of payments need, and consequently on the choice of the appropriate facility."

[23] Guidelines on Conditionality, A(6) specifies that Fund-supported programs should be directed primarily toward the following macroeconomic goals: (a) solving the member's BoP problem without recourse to measures destructive of national or international prosperity; and (b) achieving medium-term external viability while fostering sustainable economic growth.

**Table 2. Examples: Linking the Causes of BoP Problems to Program Objectives and Conditionality**

| Nature and Cause of BoP Problem | High-Level Objective | Operational Objective | Conditionality Example |
|---|---|---|---|
| Actual – reserves depleted by persistent trade deficits and overvalued exchange rate | Rebuild external buffers and improve competitiveness | Greater exchange rate flexibility | Quantitative Performance Criteria (QPC) on Net International Reserves (NIR) to encourage build up reserves; Limits on central bank FX interventions to encourage adjustment through exchange rate flexibility |
| Prospective – difficulty in meeting government's large FX financing needs | Reduce deficit and government financing needs and smooth it over time | Bring debt to GDP and gross financing needs to below prudent thresholds | QPC on primary fiscal deficit; Use of debt-related conditionality as appropriate (see Debt) |
| Potential – reserves could drop below prudent levels in the face of external shocks that lead to nonresident deposits withdrawals | Improve resilience to external shocks | Increase foreign currency liquidity buffers in the banking system | Introduce/increase reserve requirement for foreign currency deposits |

Note. Examples are hypothetical and illustrative and are not intended as one-size-fits-all policy advice.

17. **Importantly, in helping the authorities design a Fund-supported program, objectives should be formulated in discussion with them, and their preferences and policy choices should be accommodated, subject to consistency with resolving BoP problems, macroeconomic stability and all other program goals.**[24] To the extent possible, program objectives should be aligned with the authorities' own reform plans (e.g., national reform plans and PRGS country strategy[25]) including on growth, labor market, and distributional targets, subject to consistency with the overarching objective of resolving the BoP problems. This would help to maximize program ownership and increase chances of program success (see discussion of structural conditionality).

18. **Staff should also draw on issues identified in previous discussions with the authorities, where relevant.** Staff should consider issues raised in previous Article IV consultations, technical assistance missions, staff visits, ex-post evaluations, Financial Sector Assessment Programs, and bilateral meetings. These issues may represent a subset of the authorities' broader policy agenda and longer-term goals, or intermediate steps toward those goals, and should be identified as specifically as possible. In the context of PRGT lending, it is expected that goals that extend beyond

[24] Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines (IMF, 2014).

[25] For the ECF (as well as SCF arrangements-with initial durations of more than two years), a Poverty Reduction and Growth Strategy (PRGS) paper by the authorities is required to be issued to the Board for completion of the second and subsequent reviews. In cases where the country has limited institutional capacity that prevents meeting the PRGS requirements by the second ECF review, such as in cases of fragility, the country may request Board approval of an extension. The PRGS describes countries' macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. See Reform of the Fund's Policy on Poverty Reduction Strategies in Fund Engagement with Low-Income Countries - Proposals, 2015.

the program period would be addressed in the context of a potential successor arrangement or in some other dialogue with the authorities, such as in the context of surveillance.

**19. Staff should also consider whether specific governance-related conditions are called for.** Under the Fund's 2018 Framework for Enhanced Fund Engagement on Governance to determine whether reforms to address governance vulnerabilities should be a condition for the use of the Fund's resources, the Fund will assess (i) the severity of governance vulnerabilities; and (ii) whether addressing the identified vulnerabilities is of critical importance for achieving the goals of the member's program. Arrangement approval and/or program reviews could be suspended or delayed if there is a reason to believe that poor governance could have significant macroeconomic implications threatening the successful implementation of the program or puts in doubt the purpose of the use of Fund resources. In the case of delayed approval or review, measures to at least begin to address governance/corruption issues should be in place before the resumption, including through specific conditionality.[26]

## D. Choosing the Instrument or Facility

**20. The choice of instrument or facility should reflect the nature of BoP problems, the underlying use of GRA and/or PRGT resources, and the appropriate conditionality standard:**

- **GRA and PRGT instruments/facilities.** All Fund members are eligible to access the Fund's resources in the **GRA** under the Articles of Agreement. All members requesting access to Fund financial support from the GRA are required to meet the provisions of the Articles of Agreement as well as policies adopted thereunder, including to safeguard the temporary use of the Fund's general resources. A subgroup of the membership is also eligible for concessional financial support under the **PRGT.** The PRGT eligibility framework—introduced in 2010 and evolving since—includes transparent and rules-based criteria to guide decisions on the eligibility of countries to access the Fund's concessional facilities.[27] These members are eligible, but not obliged, to use such concessional financing. Given the financial advantages of concessional financing, staff should continue to advise PRGT-eligible members to seek financing under the PRGT facilities up to the applicable *access limits*. If the size of the BoP need exceeds the access limits of the PRGT, or if the member prefers to access or is presumed to blend GRA resources, consideration of a request for support from the GRA would be based on the relevant policies governing access to the GRA, including those that pertain to program strength, capacity to repay the Fund, and debt sustainability. The Fund has noted that for PRGT-eligible members with weak capacity to service non-concessional debt, GRA financing—with higher interest rates and shorter

[26] See IMF (2016, SDN/16/05) for more information on the corruption costs and mitigation strategies. Existing Fund experience suggests that an anti-corruption strategy will only be effective when it manages to convince key players that the rules of the game have indeed changed. Among other things, this requires changing incentives, including through a credible threat of prosecution, enhancing the rule of law, increasing transparency, and eliminating excessive regulation. As the development of strong institutions takes time, programs should be realistic that eradicating corruption is a long-term objective. For examples of conditionality related to AML/CFT in IMF programs, please see Ukraine 2022 SBA, Pakistan 2019 EFF, and Ecuador 2020 EFF.

[27] See Eligibility to Use the Fund's Facilities for Concessional Financing (IMF, 2020).

maturities—may not be suitable relative to concessional financing under the PRGT.[28] This concern over capacity to service debt is addressed under Fund policy through a rigorous assessment of capacity to repay, and applies to all members of the Fund.[29] Members that are presumed blenders can access PRGT resources only in a blend with GRA resources. Those PRGT-eligible members that are presumed to blend are expected to mix PRGT and GRA resources with a 1:2 ratio subject to a cap on PRGT resources of 145 percent of quota per arrangement and to the overall limits on access to PRGT resources. See Annex W for relevant considerations and restrictions.

- ***The nature of the BoP problem and the duration of adjustment needed.*** If a country is facing serious medium-term BoP problems because of structural weaknesses or experiences protracted BoP problems (in the PRGT context), the resolution of underlying macroeconomic and structural imbalances would normally be expected to take three years or more. In a country with a short-term BoP need, the adjustment is expected to be resolved in two years. The duration of the expected adjustment period should guide the choice of the financing instrument.
- ***Borrowing under Fund-supported programs must meet upper credit tranche (UCT) standards***.[30] Programs meet the UCT-conditionality standard when they are designed to provide substantial justification that a member's BoP problems are being addressed and resolved, and adequate confidence to the Fund that the improvements in resolving such BoP difficulties will allow the member to repay Fund resources by the time repurchases fall due.[31] A systematic process of ex post assessments is in place to help ensure that prolonged use of Fund resources does not reflect failures in the design and implementation of programs (see Annex F). Some financing instruments (FCL, SLL) do not support programs with ex post conditionality and make available resources to assist members to solve their BoP difficulties where the members meet stringent qualification criteria (i.e., ex ante conditionality).[32]

**21. To determine the appropriate facility for a particular country case, the following rules of thumb can be a useful guide** (see Figure 1):

[28] See "The Fund's Support Role in Low-Income Member Countries—Considerations on Instruments and Financing (04/07/2004) and Strengthening the Fund's Ability to Assist Low-Income Countries Meet Balance of Payments Needs Arising from Sudden and Exogenous Shocks (IMF, 2005).

[29] See Financing for Development: Enhancing the Financial Safety Net for Developing Countries – Further Considerations (IMF, November 2006, paragraph 10).

[30] The Fund's attitude to requests for transactions within the first credit tranche is a liberal one, provided that the member itself is making reasonable efforts to solve its problems (see (EBS/91/108), section 2; (EBS/91/108, Cor. 1)). Phasing and performance criteria cannot be included in arrangements that do not go beyond the first credit tranche (see Decision No. 12865-02/102). A first credit tranche arrangement normally involves a LOI and often features prior actions.

[31] See 2018 Review of Program Design and Conditionality (IMF, May 2019, paragraph 7).

[32] Drawings under the FCL and SLL are not tied to ex post conditionality (except for the mid-term review of qualification in 2-year FCL arrangements). PLL arrangements of one- to two-year duration carry ex-post conditionality, in addition to qualification criteria.

- *If a country faces a short-term BoP problem that involves an actual BoP need*, it could be supported under the SBA or SCF.
- *If a country faces an urgent BoP need,* emergency financing via an RFI or RCF (or a blend of both for PRGT-eligible countries meeting the blending criteria) could be used, subject to meeting all relevant qualification criteria, when (i) the member has an urgent BoP need that is expected to be resolved within one year without major policy adjustment being necessary, or (ii) such adjustment is necessary but the country is unable to design or implement a UCT-quality program (or bring such a program back on track) due to the urgent nature of the BoP need such as where it would take time to put in place an arrangement.
- *If a country faces a protracted BoP problem or a serious medium-term BoP problem*, it could be supported under the EFF or ECF (the latter for PRGT eligible members), which feature a longer repayment period, and longer program engagement—to help countries implement medium-term structural reforms.[33]
- *If a country faces a potential short-term BoP need*, then SBA or SCF could be used on a precautionary basis, with actual disbursements/purchases, if or when an actual BoP need arises.[34] An FCL, SLL or PLL arrangement treated as precautionary could also be considered if the member meets the qualification criteria. There is no list of members that pre-qualify for PLL, SLL or FCL, and if a member is interested in PLL, SLL or FCL, staff should follow the established procedures to initiate a confidential qualification assessment process.[35]
- *If a country does not need Fund financial support, and is seeking to signal commitment to an economic reform agenda with intensive monitoring by the Fund that can also help unlock financing from other creditors,* it could be supported under a signaling non-financing instrument (PCI).

---

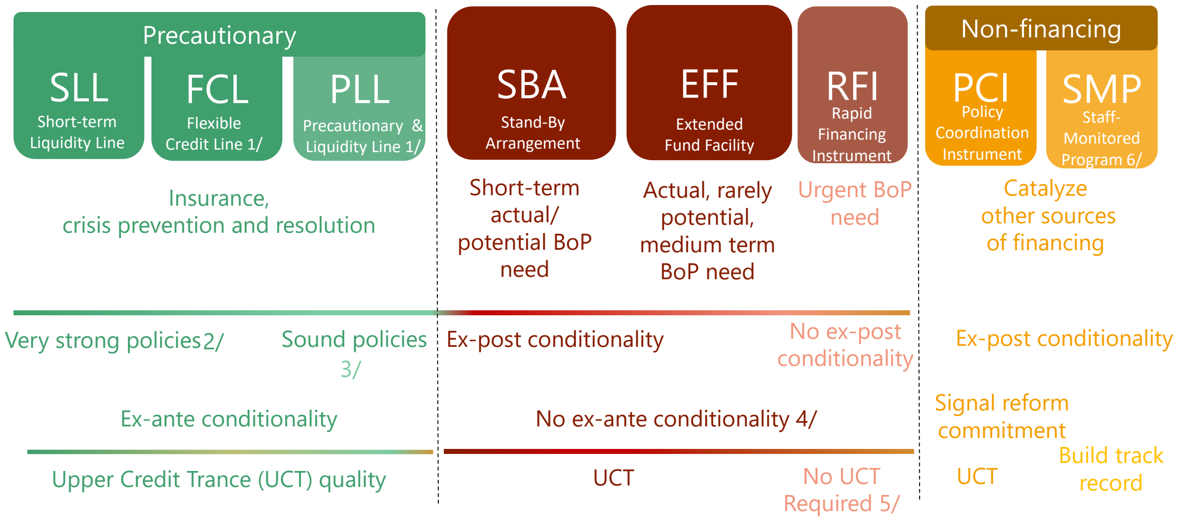
[33] Repurchases under the SBA and RFI are due within 3¼-5 years of the purchase, which means each purchase is repurchased in eight equal quarterly installments beginning 3¼ years after the date of each purchase. In contrast, amounts drawn under an EFF are to be repurchased over 4½–10 years, with each purchase to be repurchased in 12 equal semiannual installments, beginning 4½ years after the date of purchase. Repayments of ECF and RCF credit are made in 10 equal semi-annual installments, subject to a 5½ year grace period from the date of the first disbursement and 10-year final maturity. Repayments of the SCF credit are subject to a 4-year grace period and a final maturity of eight years.

[34] See staff paper on purposes and performance of precautionary arrangements (SM/06/120), (SM/06/120, Cor. 1), (SM/06/120, Cor. 2). Although the EFF decision does not preclude precautionary extended arrangements, precautionary EFFs have been discontinued, as the general objective of EFFs is to provide support for balance of payments problems that may require a longer period of time to resolve, which is generally inconsistent with the notion of a precautionary arrangement.

[35] The FCL and PLL are instruments in the credit tranches that can be used both on a precautionary (crisis prevention) and non-precautionary (crisis resolution) basis, for countries that meet rigorous qualification criteria. The SLL is a special facility available for countries with potential short-term BOP needs of the special nature addressed by facility for countries meeting the stringent qualification criteria, Drawings under the FCL and SLL are not tied to ex post conditionality (except for the mid-term review of qualification in 2-year FCL arrangements). PLL arrangements of one- to two-year duration carry ex-post conditionality, in addition to qualification criteria. See Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform (Policy Paper No. 2023/039 and guidance notes on FCL and PLL for qualification criteria and process; please note that an update of operational guidance is pending).

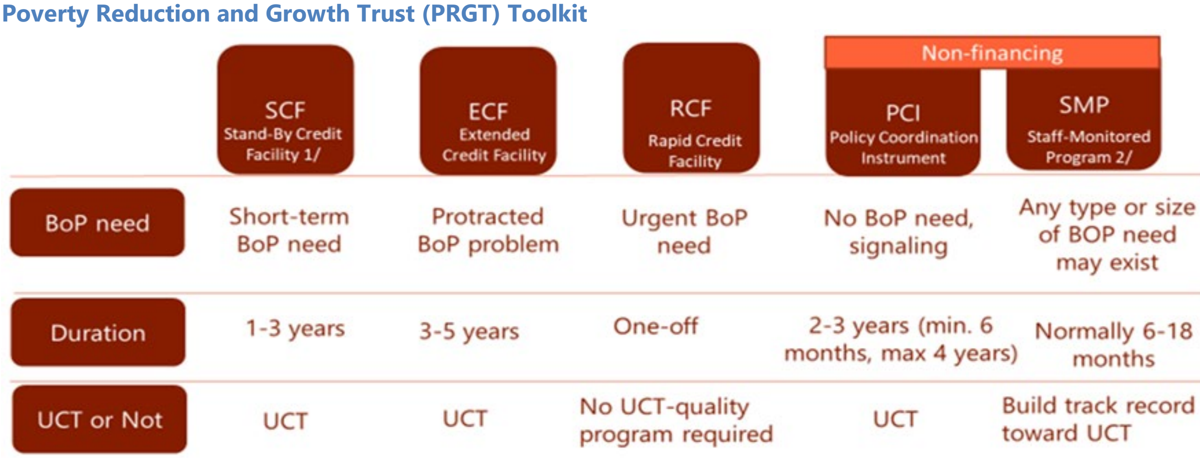
## Figure 1. Choice of Lending Instrument

### General Resource Account (GRA) toolkit




1/ PLL and FCL can be approved for actual BoP needs.
2/ SLL and FCL are for members with very strong economic fundamentals, institutional policy framework, and policies. The SLL is designed for potential, moderate, short-term balance of payment needs related to capital account pressures that could arise from external developments.
3/ PLL is intended for members with sound economic fundamentals and institutional frameworks but with some remaining vulnerabilities that preclude them from using the FCL. The PLL can have ex-post conditionality.
4/ Except prior actions.
5/ I.e., no UCT-quality program involved. BoP: Balance of Payments.
6/ Program Monitoring with Board Involvement (PMB) is a type of SMP.

### Poverty Reduction and Growth Trust (PRGT) Toolkit




1/ The SCF can be approved for actual or potential short-term BOP needs
2/ SMPs would generally be expected to be at least 9 months. As stated above, a PMB is a type of SMP.
Note: The figures highlight de facto predominant uses. The figures exclude the RSF, which requires a concurrent UCT-quality arrangement or instrument with at least 18 months remaining prior to expiry.

**22. For countries that are not in a position to implement a UCT-quality standard program—informal arrangements can pave the way for a full-fledged Fund-supported program**.[36] Staff-monitored programs (SMPs) — informal agreements between a member and Fund staff — can be used to establish or reestablish a track record of policy implementation to pave the way toward a Fund arrangement (or bring an arrangement back on track) where the authorities cannot implement a UCT-quality program. Under the HIPC Initiative, SMPs can also be used as an instrument to build a track record toward the decision point.[37] A track record is normally understood to demonstrate a member's commitment and adequate capacity to implement economic policies, including credible data submission, that are consistent with the stated objectives of the member's economic program as assessed by staff, and thereby provide a good basis to progress to a Fund financial arrangement. SMPs have been predominantly used by low-income fragile and conflict affected states that typically have limited institutional and policy implementation capacity. SMPs may be used by members receiving support under the RFI/RCF that need to build track record requirements towards a UCT Fund arrangement or for repeat use of emergency financing, but they should not be used for signaling purposes—a practice discontinued in 2003.[38, 39] SMPs are also a useful option for helping manage extended program interruptions. Off-track programs are often associated with weaker ownership and performance, and an SMP can ensure continued monitoring of macroeconomic policies while authorities build political support for critical reforms, the delayed implementation of which may have interrupted the program. SMP-related documents also provide information to the Executive Board and the public on development in off-track programs.

**23. In 2022, the IMF Board approved an amendment to the policy on SMPs that allows for limited Executive Board involvement**. The amendment gives the Executive Board an additional role in an SMP to opine on the robustness of a member's policies to meet their stated objectives under an SMP and monitoring its implementation. To differentiate from regular SMPs, such SMPs are called "Program Monitoring with Board Involvement" or "PMBs". Their use is only available to those (requesting) members who, in addition to seeking to build or rebuild a track record for a Fund arrangement that supports a UCT-quality program, would benefit from limited Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief in support of the member's policy program or (ii) significant outstanding Fund credit under emergency financing instruments at the time new

---

[36] See Staff-Monitored Programs – Updated Operational Guidance Note (IMF, 2022).

[37] SMPs are not endorsed by IMF Executive Board and usually are not of UCT quality except in the case of an SMP with a member that is seeking the decision point under the Heavily Indebted Poor Countries (HIPC) initiative. See paragraph 5 in Staff-Monitored Programs – Updated Operational Guidance Note (IMF, 2022).

[38] The RCF and RFI require a track record of adequate macroeconomic performance of at least 6 months prior to a repeat use of emergency financing disbursements/purchases- except where the request is to meet urgent BOP needs caused primarily by an exogenous shock. SMPs can be used to meet these track record requirements. For the RCF, see also the Chairman's Summing Up on Financing for Development: Enhancing the Financial Safety Net for Developing Countries- Further Considerations (BUFF/16/84). Countries implementing an SMP had on average a significantly weaker institutional and implementation capacity (2018 RoC) than LICs in UCT-quality programs without a prior SMP, or non-LICs in UCT-quality programs.

[39] See the Acting Chair's Summing Up, Signaling Assessments of Members' Policies, Executive Board Meeting 03/5, January 29, 2003 (BUFF/03/10, l/3l/2003).

emergency financing is received.[40] The PMB supports members in designing, implementing, and monitoring policies under often complex circumstances.[41]

**24. Members that do not have a need for Fund financing, may choose the non-financing instrument, the Policy Coordination Instrument (PCI)**. The PCI is available to all Fund members to assist countries in formulating and implementing a macroeconomic policy program. The instrument aims to promote a close dialogue with members at regular frequencies and require institutional and policy implementation capacities adequate for carrying out a UCT quality program, which is one distinguishing feature of the PCI relative to the SMP (see ¶22).[42] It could also help catalyze support from other sources. Moreover, the PCI could be used concurrently with an SBA and/or SCF arrangement, or with an RFI/RCF, if a BoP need arises once a PCI is underway. The PCI is also a qualifying UCT-quality instrument for purposes of an RSF arrangement. As of October 2023, the PCI has been used concurrently with the RFI/RCF in four countries and with the SBA/SCF (Senegal) and RSF (Rwanda). [43]

**25. Use of Resilience and Sustainability Facility (RSF) support.** Operationalized in 2022, the purpose of the RSF is to provide the RST-eligible members with longer-term financing to strengthen economic resilience and sustainability by (i) supporting policy reforms that reduce macro-critical risks associated with climate change and pandemic preparedness, and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges. To qualify for an RSF arrangement, inter alia eligible members will need (i) a package of high-quality reform measures addressing one or more of the qualifying longer-term structural challenges (e.g., climate change or pandemic preparedness); (ii) have (or request) a concurrent "UCT program" under an SBA, EFF, FCL, PLL, SCF, ECF, or PCI with at least 18 months remaining prior to expiry; and (iii) have sustainable debt and adequate capacity to repay the Fund.[44]

## E. Determining the Level of Access to Fund Resources

**26. Access considerations.** Under existing policies, the key criteria that governs decisions on access to Fund resources in individual country cases are**:**[45]

[40] The threshold for considerable credit outstanding under the EF instruments in 100 percent of quota.

[41] See Proposal for a Staff-Monitored Program with Executive Board Involvement (IMF, 2022).

[42] Other distinguishing features include that the SMP cannot be used for signaling purposes, and that the SMP, different from the PCI, is approved by the Managing Director, in contrast to PCI-supported programs that are approved by the Board.

[43] See Table 2 and paragraphs 22-25 in Review of the Policy Coordination Instrument and Proposal to Eliminate the Policy Support Instrument (IMF, 2023) and Policy Coordination Instrument - Operational Guidance Note (IMF, 2021).

[44] See RSF Factsheet and RSF Operational Guidance Note.

[45] See GRA Lending Toolkit and Conditionality, (IMF, 2009, Annex II).

- ***The member's actual or potential need*** for Fund resources, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves. See Box 4 for guidance on estimating this.
- ***The member's capacity to repay the Fund, which takes into account the strength of its adjustment program*** including the extent to which it will lead to a strengthening of the member's BoP by the time that repurchases/disbursements begin to fall due. This, inter alia, takes into account the member's policy plans, adjustment effort, commitment to implement the program, institutional capacity, and country circumstances such as vulnerabilities, imbalances, and debt sustainability (Figures 2 and 3).
- ***The amount of outstanding Fund credit and the member's track record of past use***, which also factors into a judgment on the appropriate scale of further use of the Fund's resources.

All else being equal, higher access would generally be associated with a stronger program, stronger track record of policy implementation, and stronger capacity to repay. These criteria are broad and making them operational involves substantial judgment, even more so when access is requested on a precautionary basis, in which case the starting point is the risk of a plausible adverse scenario that takes into consideration the above factors.

**27. Access to Fund resources would typically be less than total financing needs, given the Fund's catalytic role in attracting non-Fund financing.** In determining access, guided by access criteria, staff should strike the balance between the need for policy adjustment, financing from other sources, and residual IMF financing. As shown in the 2018 RoC, PRGT-supported programs are typically more catalytic—mobilizing other official and private flows—and entail less policy adjustment as financing is used to support growth and poverty reduction objectives. GRA-supported programs are expected to catalyze non-Fund financing (to promote burden sharing and avoid accumulation of non-restructurable super-senior debt) and those aiming to address short-term BoP problems may envisage a more adjustment-heavy mix (see Box 4).

**Figure 2. How Should Financing Gaps be Closed?**

Illustrative Stylized Considerations

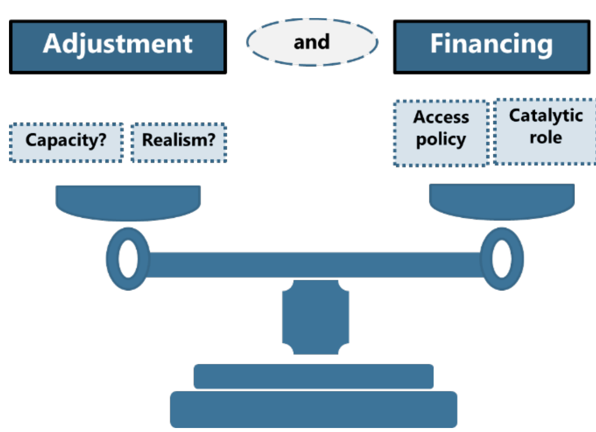
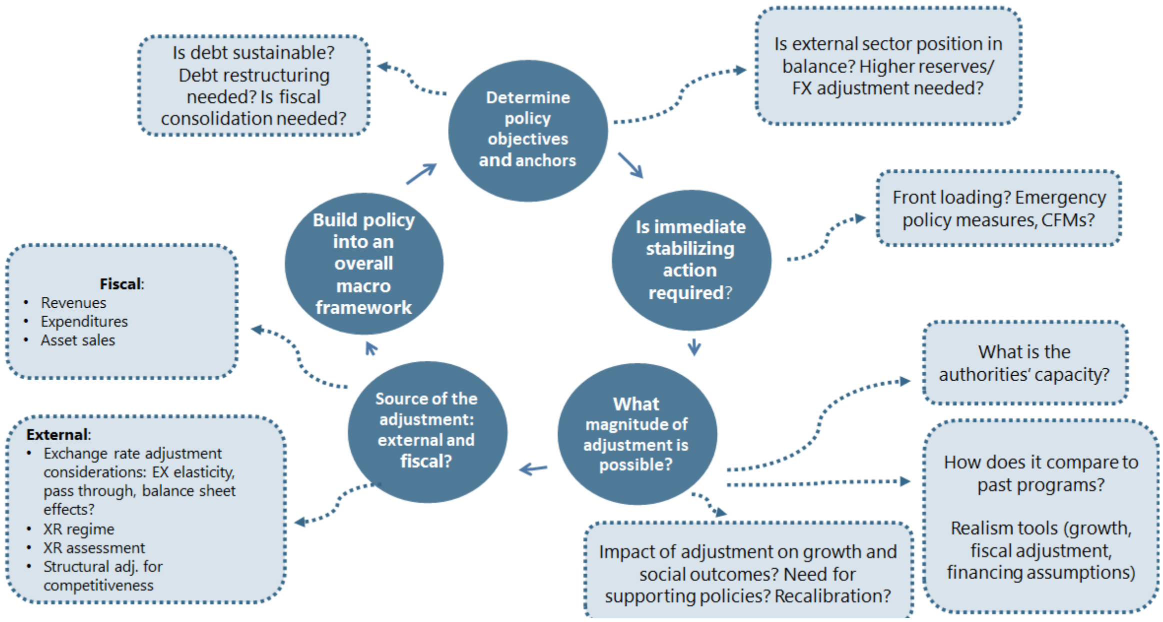


**Figure 3. Illustrative Considerations in Determining the Adjustment Package**




**28. Documents for UFR should include a table of Gross Needs and Sources of External Financing and demonstrate the need for and the role of Fund resources.** The table facilitates diagnosis, prescription, and communication of policies, and helps shed light on the causes of vulnerabilities by sector and type of flows. A sufficiently detailed table could usefully include sources of financing needs arising from the external current account deficits, debt service needs by the government and private sector, and by type of creditor (e.g., multilateral, bilateral, or bond repayments) to provide a clear picture of financing needs. On the financing sources, sufficient detail needs to be provided on the sources of financing broken down by the type of creditors (e.g., multilateral, bilateral, and private sector) and by the type of the instruments (e.g., FDI flows, portfolio debt flows, and loans). Such detailed breakdown is a crucial input in clearly showing the vulnerabilities arising from financing needs by different sectors, and assessing the realism of financing assumptions (are rollover rates realistic? Are inflows from the private or public creditors realistic?). When the main source of BoP gap is the fiscal financing gap, and the program is extended for budgetary support, demonstrating the link between budgetary financing needs and the BoP need is particularly important. In such cases, either the fiscal accounts table needs to provide adequate details on the financing of the deficit (broken down by domestic and external financing), or a separate "gross fiscal financing needs and sources" should be provided. See Ghana 2023 ECF (Tables 5 and 2c) and Ecuador 2022 Sixth Review EFF (Tables 3 and 5) for examples of "gross external financing needs and sources" and "gross fiscal financing needs and sources."

**29. Access limits** (Figure 4). Individual amounts approved under Fund arrangements and emergency assistance is determined on a case-by-case basis by application of access policy criteria. In addition, access to Fund resources is also guided by access limits, access norms in the case of

PRGT, and special procedures for higher access. Overall access limits to financing in the GRA and under the PRGT take the form of **annual** and **cumulative** limits, which do not cap the access but act as a threshold for triggering the application of higher scrutiny under Exceptional Access (EA) policies, which entail meeting substantive criteria and procedural requirements including early Board consultations. The appropriateness of access limits is reviewed regularly including most recently in March 2023 with respect to the GRA. The current GRA **annual access limit,** defined as the sum of past and future scheduled purchases/disbursements in any 12-month period, is **145 percent of quota** (temporarily raised to **200 percent of quota** through March 2024**)** ; the **cumulative access limit**, defined as the sum of total outstanding purchases/disbursements (net of scheduled repurchases/repayments) at any point in time (including any purchases/disbursements made available but not drawn in the context of a current arrangement), is **435 percent of quota** (temporarily raised to **600 percent of quota** through March 2024**)**. The PRGT annual and cumulative access limits were left unchanged at 145/435 percent of quota, respectively. Access above either the GRA or PRGT limits is subject to meeting provisions and procedures set in the EA Framework.[46] In the case of PRGT, there are also **access norms**.[47] Norms provide guidance on what may constitute an appropriate level of access under certain PRGT facilities, but they should not be misconstrued as access limits or an entitlement. To gauge the potential Fund access under a contemplated arrangement against the annual and cumulative access limits, the staff could use the What-IF tool developed by Finance department.

[46] While there is no cap on access to GRA resources, certain instruments in the Fund's lending toolkit are designed with access caps. For instance, access under the PLL is currently capped at 600 percent of quota applicable cumulatively to all access under the PLL instrument. Access under the RFI also entails caps, with the latest caps described here https://www.imf.org/en/About/Factsheets/Sheets/2023/Rapid-Financing-Instrument-RFI.

[47] See Fund Concessional Financial Support for Low-Income Countries—Responding to the Pandemic (SM/21/120, June 30, 2021) and 2023 Handbook of IMF Facilities for Low-Income Countries for details. Access can deviate from the norms if warranted by standard criteria for determining access. For instance, access may be above the norm in cases where BoP needs are noticeably larger than in most other cases, such as due to a large shock and subject to, inter alia, adequate capacity to repay. Access can also be lower than norms for example when the BoP need is limited, policy capacity is constrained, debt vulnerabilities are high, or there is otherwise limited capacity to repay.

### Box 4. Estimating the Member's Need for Fund Resources

**To estimate the size of the BoP need in practice, the starting point generally is the country's projected gross borrowing requirements, taking into account expected financing flows**.[1/] To this end, the following considerations and indicators are normally used by Fund staff:

- The degree and drivers of required current account adjustment, in view of the need to address underlying imbalances, without creating disorderly conditions;
- Public and private debt rollover prospects using historical benchmarks of rollover rates in crisis and near-crisis situations, as well as current market expectations;
- Prospects for FDI flows;
- Recent trends and outlook in portfolio flows in relation to the stock of nonresident holdings;
- Current and expected deposit outflow pressures and the degree of liability dollarization in the economy;
- Other sources of financing, including from private and other multilateral sources; and
- The desirability of maintaining a reasonable level of reserves in relation to imports, short-term debt, the monetary base and bank deposits, or in relation to Fund's reserve adequacy metric (ARA).

**Any estimate of BoP need would also be informed by assumptions on global growth and financing conditions** (from the WEO and GFSR), comparisons with previous and contemporaneous crises, assumptions for peer countries and global consistency requirements, and contagion risks. In capital account crisis, access decisions could also be informed by the need to bolster investor confidence.

**The underlying assumptions in estimating BoP need—including on growth, rollover rates, and payoffs from expected reforms—should be carefully calibrated and explained in program documents**, as more optimistic assumptions could risk understating the financing and adjustment required to achieve program objectives, with consequences for program implementation and success. The estimate of the BoP need should clearly report the types/sources of external financing and how these are calculated, and include an analysis of their reliability, duration, and likely repayment conditions. The assessment should also factor in risk sharing consideration, e.g., a country dependent on one (or few) sources of financing can expose the recipient to vulnerabilities and to be overly dependent on the source's conditions. For guidance on program realism see section F and discussion of gains from structural reform.

**When access is requested on a precautionary basis, staff should construct a plausible adverse scenario to help determine an estimated *potential* financing gap and the appropriate level of access**. Additional factors—beyond the potential financing gap in the adverse scenario— could be given weight when forming a judgment about the appropriate level of access but these would need to be carefully justified. In particular, to enhance transparency and evenhandedness of access decisions across arrangements, staff should (i) place attention in presenting the link between access and the size of actual or potential BoP needs in individual cases; (ii) allow comparability in the choice of the adverse shocks underpinning the access scenarios, while also taking into account country-specific factors; and (iii) cross-check programmed reserves against standard adequacy metrics.[2/]

1/ See Annex II in GRA Lending Toolkit and Conditionality: Reform Proposals (IMF, 2009).
2/ For guidance on and examples of construction of such scenario see Annex II in Flexible Credit Line—Operational Guidance Note (IMF 2018), Box 1 in Kenya (2016 SBA-SCF), Annex IV in Armenia (2019 SBA), and Box 2 in Mexico (2019 FCL).

**Figure 4. Annual and Cumulative Access Limits** (as of March 2023)

| | Normal Cumulative Access Limit (NCAL) | Normal Annual Access Limit (NAAL) |
|---|---|---|
| GRA 1/ | **435 percent** of quota (600 until March 2024) | **145 percent** of quota (200 until March 2024) |
| | Higher access subject to meeting **GRA EA criteria** | |
| PRGT 2/ | **435 percent** of quota | **145 percent** of quota |
| | **Access norm set at 145 percent** of quota for any three-year ECF arrangement | |
| | Higher access subject to meeting **PRGT EA criteria**, hard limits on access eliminated as of July 2021 for countries that do not meet the income criterion for presumed blending at the time of the request | |
| Combined GRA-PRGT exposure 3/ | The threshold levels for combined exposure that trigger the application of safeguards are the same as those under the **EA framework in GRA** | |

Note. Please see IMF website for factsheets for information on terms for various financing instruments and facilities (e.g., SBA, EFF, RFI, FCL, PLL, SLL, SCF, ECF, RCF).
1/ See pg. 21 of Temporary Modification to the Fund's Annual and Cumulative Access Limits (Policy Paper No. 2023/005, March 6, 2023).
2/ See Table 2 and Box 1 in 2023 Handbook of IMF Facilities for Low-Income Countries for a summary of norms, limits, and procedural safeguards. The PRGT lending framework has high access procedural safeguards, which are applied when a financing request entail proposed access such that i) access to PRGT resources over any 36-month period would exceed 240 percent of quota ("flow trigger"), or ii) aggregate exposure to the PRGT, net of repayments, would exceed 300 percent ("stock trigger").
3/ See Policy Safeguards on High Combined Credit to the GRA-PRGT (PS-HCC), 2020 and Boxes 2a-b in 2023 Handbook of IMF Facilities for Low-Income Countries.

**30.** **The EA framework** is an important element of the Fund's risk management framework, which requires application of careful scrutiny to high-access cases. EA criteria and related procedures for high levels of financing from the GRA were initially introduced in 2002 in response to concerns about the predictability of conditions under which EA would be extended, as well as the need for higher scrutiny given to Fund lending decisions that entailed very high levels of access. These criteria and procedures seek to provide greater confidence that EA remains limited to cases where members experience an exceptional balance of payments need, and that member will be able to overcome their BoP difficulties, and ultimately, Fund resources will be repaid, and borrowers will not be faced with debt service challenges in situations where they have accumulated a large stock of non-restructurable debt. There are two EA policy frameworks and a framework for enhanced scrutiny for high combined access relevant here: an EA framework for access to GRA resources, an EA framework for access to PRGT resources and a framework applying to any Fund member with high combined access to GRA and PRGT resources. See Annex K for details on procedures and substantive criteria in GRA, PRGT and combined cases.[48]

[48] For policy documents on the EA framework under GRA, see Selected Decision 14964-(08/18) and references therein, notably the Review of Access Limits and Surcharge Policies (April 2016), The Fund's Lending Framework and Sovereign Debt — Further Considerations (April 2015), and 2004 Review of Exceptional Access Policy SM/04/99. For EA under PRGT, see IMF policy paper "A New Architecture of Facilities for Low Income Countries", 2009, Para 80-87.

(continued)

## F. Reviews and Phasing

**31. Most arrangements involve the provision of Fund resources in installments (*Phasing*)**. Access would normally be phased as evenly as possible throughout the arrangement period, but frontloading may be appropriate taking into account different factors, including the timing of member's BoP needs, the member's policies, timing of key reforms, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining a reasonable level of reserves, and provided that there are adequate safeguards in place to Fund resources – see Annex C for further details. Broadly speaking, phasing is expected to be correlated with adjustment and reform – i.e., front-loaded access would be expected to be associated with front-loaded reforms, since reform implementation provides safeguards for the use of Fund resources.[49] Another key consideration for uneven phasing is how to incentivize the authorities to stay the course of policies and maintain the program on track The phasing of access approved at arrangement request can also be modified during the course of the arrangement in the context of reviews, whereby developments in policies and timing of BoP needs are taken into consideration.[50]

**32. A program review will be completed only if the Executive Board is satisfied, based on the member's past performance and policy understandings for the future, that the program remains on track to achieve its objectives.** In making the backward-looking assessment, the Executive Board will take into consideration, in particular, the member's observance of conditionality (discussed in section III), which should be specified as fully and transparently as possible in the arrangement.[51] The forward-looking components of reviews include assessing the prospects of achieving the program objectives, based on the latest available information, setting conditionality beyond the first year of a multi-year program, and modifying program objectives or conditionality as new information becomes available, e.g., if additional adjustment is needed owing to changes in economic conditions, or to augment access in the face of a new shock. Lastly, the last program review can be used to take stock and, where possible, provide a preliminary assessment of stated program goals and their achievement and of the experience with program implementation.[52] Staff should apprise the authorities about any subsequent post-financing assessment (PFA) at the time of the access discussions as well as the last review, when applicable. See Annex I on PFA.

---

Also see 2018-19 Review of Facilities for Low-Income Countries (IMF, June 2019) and Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would lead to High Levels of Combined GRA-PRGT Exposure (IMF, September 2020).

[49] For more on phasing, see paragraph 3 in Selected Decisions and Selected Documents of the IMF -- Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guidelines.

[50] The ad-hoc review mechanism is available in the PRGT to allow augmentation outside of the context of a scheduled review. Ad-hoc reviews are intended to address an increase in the underlying balance of payments problems of the qualifying member where the problem is so acute that the augmentation cannot await the next scheduled review. For more information, see 2023 Handbook of IMF Facilities for Low-Income Countries.

[51] See Guidelines on Conditionality, B(11)(c)(i). Specifically, arrangements specify performance criteria and reviews. Structural benchmarks and indicative targets are clearly identified as such in program documents.

[52] Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines (IMF, 2014).

**33. Reviews also provide the framework to set and/or modify conditionality** (more in section III). Conditionality is generally expected to cover the 12 months following program approval/review or through end-program whichever comes sooner. Every effort should be made to include performance criteria initially for as much of each 12-month period of a Fund GRA arrangement as possible. However, it may not always be possible to establish in advance one or more quantitative performance criteria for each 12-month period of the arrangement because of substantial uncertainties about major economic trends and normal time lags between the completion of program discussions and Executive Board discussion. Quantitative performance criteria (alongside supporting structural benchmarks) should normally be included initially which would govern purchases over a period of at least six months of an arrangement. Indicative targets would normally be included at the outset for that part of each 12-month period of an arrangement for which performance criteria are yet to be established.[53] Conditions added during reviews should be anchored upon the program initiating document and those added in new reform areas would require a clear justification as to why the related measures had become critical to achieving program goals.

**34. Reviews are expected to be held every six months but could be more frequent in some circumstances.** Pursuant to streamlining proposals supported by the Board,[54] most programs are designed with a semi-annual review cycle. However, if a member is particularly vulnerable and risks to the program strategy are acute due to substantial uncertainties concerning major economic trends or policy implementation, staff could consider more frequent (quarterly) monitoring.[55] It is also possible to change the review frequency from semi-annual to quarterly if unforeseen risks emerge during the program or for programs with a poor track record. It should be noted that the PRGT instrument requires availability dates for the disbursements to not be phased more than 6 months apart. This rule does not apply to the interval between approval of the ECF (and SCF) arrangement and the first review, which may be spaced more than 6 months apart if circumstances so warrant.[56]

**35.** Moreover, subject to conditions, **combined reviews** can be considered when there have been delays in completion of reviews but the program is on track with respect to the most recent review and sufficient corrective action has been taken to offset the nonobservance of the conditions for earlier reviews. Arrangements can also be **extended**, including to **add additional reviews**, subject to conditions. Extensions can be approved for the purposes of rephasing to change the amounts of financing associated with specified reviews and/or change the number or timing of

[53] See Relationship between Performance Criteria and Purchases under Fund Arrangements, Selected Decisions, Decision No. 15017-(11/112).

[54] See *The Chairman's Summing Up – Selected Streamlining Proposals Under the FY-16-18 Medium Term Budget – Implementation Issues, April 23, 2015*.

[55] For a discussion see IMF (2015) and Conditionality Guidelines, paragraph 11(c)(i). In addition, Board decision 7925(85/38), as amended, states that "for members facing an actual balance of payments crisis that may involve fast moving developments or an uncertain external economic environment, more frequent monitoring on a quarterly basis could be expected" (See Selected Decisions, Decision No. 7925-(85/38) as amended).

[56] See Selected Decisions, pg.182.

disbursements and reviews. See Annex B for details on and cases where such program modifications are warranted.

**36. Financing assurances.** The Fund's policy on financing assurances requires that arrangements can only be approved (and reviews can only be completed) when the program is fully financed. This means that donors and official creditors have furnished assurances that they will provide the necessary support (through new loans and/or refinancing) to meet the program financing requirements on terms consistent with the member's return to external viability. In the event the Fund is providing financial assistance to a member that has outstanding sovereign external payments arrears to private creditors or that, by virtue of the imposition of exchange controls, has outstanding non-sovereign external payments arrears, the financing assurances review determines whether adequate safeguards remain in place for the further use of the Fund's resources in the member's circumstances and whether the member's adjustment efforts are undermined by developments in creditor-debtor relations. [57,58] Specifically, SRs at arrangement approval and each review should confirm that (i) firm commitments of financing are in place for the first 12 months following approval of the arrangement and program reviews, and (ii) good prospects are in place that there will be adequate financing for the remaining arrangement period. The above general policy for financing assurances was amended in March 2023 for cases where UCT financing is confronted by "**exceptionally high uncertainty**". Where specific conditions are met and procedural safeguards are followed, the policy allows for UCT financing where official bilateral creditors provide an upfront credible and specific assurance covering what is needed to restore debt sustainability under a baseline scenario, and an upfront assurance to provide the necessary financial support to restore debt sustainability in a second stage once the exceptionally high uncertainty abates.[59] Staff must also determine that the member country has the capacity to repay the Fund based on the totality of circumstances, including medium-term projections of the BoP and the provision of a set of indicators of the capacity to repay the Fund. The application of the policy requires assessing that the country case meets the five specific criteria defining "exceptionally high uncertainty" under the policy, namely that (i) it originates from an exogenous shock outside of authorities' control; (ii) the shocks' impact on the economy depends on events fundamentally outside of the control of the authorities' economic policies; (iii) there are severe and continuing BoP needs that are difficult to assess; (iv) it is difficult to establish a single "central" scenario or the situation involves adverse tail risks where impacts continue beyond the usual program timeframe; and (v) standard upfront debt write-downs are impaired by the lack of a sufficiently central scenario (see ¶13 in Policy Paper No. 2023/007 for details). Additionally, in view of the risks of engaging in UCT lending under exceptionally high uncertainty, the policy entails procedural safeguards (see IMF PR23/78 and ¶18 in Policy Paper No. 2023/007), including an early consultation with Executive Directors about

[57] For more details on financing assurances required in the context of unsustainable debt and restructuring, please see *Reviews of the Fund's Sovereign Arrears Policies and Perimeter (imf.org)* (IMF, 2022, paragraphs 8-10).

[58] See Guidelines on Conditionality, B(11)(c)(ii).

[59] The policy change also extended the existing use of a capacity to repay assurance from official creditors/donors for safeguards purposes in an emergency financing context to a UCT financing context. (See Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty, (Policy Paper No. 2023/007, March 17, 2023).

engagement under exceptionally high uncertainty to determine whether these circumstances are present and whether the Fund is prepared to accept the risks that a UCT arrangement would entail.

**37. If a program goes off track, staff should consider a range of procedural options to inform the Board and help bring the program back on track.** In cases of major delays in the completion of a review, the Managing Director will inform Executive Directors in an appropriate manner.[60] To bring programs on track, both for GRA and PRGT-supported program, staff should explore with the authorities the merits of starting an SMP. The voluntary use of SMPs can help ensure monitoring of macroeconomic policies, while the authorities build political support for the critical reforms, whose delay has interrupted the program.[61]

## G. Diagnosing and Managing Risks to Programs—Realism

**Recommendations of 2018 Review of Conditionality and Program Design**

- Increase scrutiny of the realism of program baselines. Better calibrate risks, discuss downside scenarios, and develop contingency plans.
- Strengthen the discussion and analysis of the impact of program policies on growth, including fiscal multipliers and the pay-offs from structural reforms.

Summing up:

Directors shared the assessment that growth assumptions were often too optimistic, driven largely by global forecasting errors and the underestimation of the impact of policy adjustment and overestimation of structural reform payoffs. Directors thus welcomed the proposals to increase the scrutiny of baseline assumptions, deepen the discussion of risk scenarios, and improve contingency planning in program design.

**38. Macroeconomic realism matters for program success.** Optimistic growth assumptions, partly driven by an underestimation of the impact of policy adjustment and overestimation of structural reform payoffs, understate the financing and adjustment required to achieve program objectives, with consequences for program implementation and success (2018 Review of Program Design and Conditionality). In addition, unrealistic financing assumptions in programs, could lead to underestimation of needed adjustment and give rise to distortionary and undesirable financing measures. Accordingly, both domestic and external financing should be cross-checked for realism, to avoid incurrence of domestic arrears, financial repression, a deepening sovereign-financial sector nexus under the program, and pressure for monetary financing. Various tools are available to staff to achieve more realistic baseline projections (see Annex X on realism tools):

[60] See Guidelines on Conditionality, B(11)(c)(i).

[61] For additional information on SMPs and other track records, please consult IMF (2022) SMP – Updated operational guidance note and Appendix III in IMF (2022), 2023 Handbook of IMF facilities for Low-Income Countries.

- *Tools provided in debt sustainability frameworks (DSFs).* Tools embedded in DSFs are intended to gauge the realism and sensitivity of baseline program projections. They should ideally be used early on as part of the iterative process of producing the baseline macroeconomic framework. They allow assessing, inter alia, the realism of the planned fiscal adjustment, the consistency between fiscal adjustment and growth assumptions under a range of plausible fiscal multipliers and demonstrate the historical and future drivers of debt dynamics. DSFs also provide numerous stress tests to gauge the sensitivity of debt projections and financing needs to changes in assumptions under a range of scenarios. In this context, staff should discuss prominently in program documents the realism of baseline growth projections by leveraging, at a minimum, (i) the fiscal adjustment and growth realism tool under the SRDSF and LIC DSF; (ii) the real GDP growth and output gap realism tools under the SRDSF; and (iii) the realism tool assessing the consistency between public investment and growth under the LIC DSF.[62] In cases where the tools flag large differences from cross-country or the country's historical experience, staff should systematically provide explanations as to why the flags triggered do not signal overoptimism.[63] The discussion could be developed in the "Outlook and Risks" section of PNs and SRs and will be required for Fund arrangement requests and program reviews with a significant growth deviation relative to previous projections.[64] For PRGT program countries, the LIC DSF framework requires long term (20-year) growth projections, which should be discussed jointly with the World Bank and covered in the "Outlook and Risks" with due consideration given to the country's stage of development, exposure to natural disasters, and resource extraction activities (where relevant).
- *Other tools.* Depending on data availability and country circumstances, staff is strongly encouraged to use additional tools to improve the realism of baseline projections. These could include forecast evaluation tools to identify potential forecast biases and flag projections that warrant further scrutiny (e.g., country forecast performance tool, the country data annex, and the Debt-Investment-Growth model and its extensions to assess the macroeconomic effects of public investment scaling-ups).[65] Another possibility is to report findings from counterfactual analyses to help motivate operational advice.

[62] The emphasis on the use of realism tools is also consistent with the Management's Implementation Plan (MIP) in response to the IEO's report on growth and adjustment in Fund-supported programs.

[63] When a strong justification is not evident, realism concerns would warrant a re-examination and revision of the macroeconomic framework projections.

[64] This requirement is in line with the LIC DSF Guidance Note, which mandates the production of a new DSA when, inter alia, "countries experience significant changes in economic circumstances" (¶14). The assessment of growth deviations is left to staff's judgement.

[65] See Buffie et al. (2012) on the DIG model and Melina et al. (2016) on its extension to account for natural resources (DIGNAR).

**39. Program risks and mitigating measures should be given prominence in program documents.**[66]

- *Qualitative discussions*. Program documents are expected to present the key external and domestic risks—including political and implementation risks—along with their likelihood, impact, and potential policy responses. These could be developed in the "Outlook and Risks" section of program documents and highlighted in the cover memo and the "Staff Appraisal" section. Staff is also strongly encouraged to include a Risk Assessment Matrix (RAM) in program PNs and SRs to highlight key risks that could materially alter the baseline path, assess their likelihood of realization, and their economic impact should they materialize.[67]
- *Discuss downside scenarios*. In addition to qualitative discussions, it can often be helpful to quantify the impact of key risks to illustrate potential financing implications and develop an adequate policy response. Staff can quantify risks to select key variables (e.g., growth, debt, inflation, financing needs) arising in the case of no-reform or adverse shock scenario, as relevant to the country. Such scenarios, whether elaborate or narrowly focused, are effective tools for communication of risks with the authorities, Management, and the Board, and illustrate the magnitude of potential offsetting contingency measures needed in case risks materialize. See examples of the use of adverse/downside scenarios in Ukraine 2014 (1st review, Box 2), Morocco 2020 (2nd review, paragraph 10), Pakistan 2016 (9th review, Box 3) and Guinea 2018 (1st review, Figure 13). Where UCT financing is confronted by exceptionally high uncertainty (see also ¶36), fully elaborated baseline and downside scenarios are required and these need to be sufficiently separated to generate confidence that the Fund-supported program solves the member's BOP problem and restores medium-term external viability, notwithstanding the exceptionally high uncertainty about the ongoing shock (e.g., Ukraine 2023, Box 1, Annex V, and related discussion).
- *Develop Contingency Plans (CPs)*. Similar in nature to adverse scenarios but often more encompassing, CPs are recommended to be included in program PNs where appropriate and subject to strict confidentiality.[68] Given uncertainty around program baselines, the broad goal of continency planning is for staff and authorities to reach understandings on a set of policy responses for contingencies. Such understandings can be as broad or as specific as warranted depending on the risks and country circumstances, but in any case, would be expected to cover the main pressure points and potential responses. This collaborative process places authorities in a stronger position to consider a range of options in a timely manner, should risks materialize. While program reviews typically function as an ex-post mechanism to address changed

[66] The recommendations here are in line with and aim to operationalize the recommendations of 2018 Review of Conditionality and Program Design as well as those in the Management's Implementation Plan (MIP) in response to the IEO's report on growth and adjustment in Fund-supported programs, as listed in Table 1.

[67] See Box 6 in the Guidance Note for Surveillance under AIV Consultations. RAMs provide a structured framework for analyzing risks and their possible impact. They cover major global, regional, or country-specific macroeconomic, financial sector and geopolitical risks, as well as risks to implementation. A RAM must be included in Article IV staff reports, though it is optional in program request/review documents.

[68] This is consistent with the Management Implementation Plan (MIP) in response to the IEO's report on growth and adjustment in Fund-supported programs.

circumstances relative to initial projections, CPs allow staff to think ex ante about possible shifts in the program strategy. As such, CPs are not intended to identify a precise response to a particular future scenario with defined triggers, but rather are a risk-management tool to identify pressure points and a set of possible responses.

- *Downside scenario*. CPs should ideally outline a relevant adverse scenario based on a set of domestic and external shocks, and elaborate how key program variables/targets/objectives—including financing gaps, external position, and public debt—would be impacted.[69] There can be situations where the uncertainty of the adverse scenario is very high (especially if driven by non-economic factors such as conflict), so a partial equilibrium adverse scenario (including qualitative factors) can be used instead of a fully-fledged adverse macro scenario. Shocks could be applied to growth, fiscal revenues, commodity prices, export volumes, remittances, FDI, debt and portfolio inflows, rollover assumptions for short-term debt, and deposit outflows.[70] The adverse scenario should discuss key transmission channels of shocks. It could be passive (i.e., effects of recommended policy responses are not reflected in the scenario) or active (i.e., policy responses are embedded in the scenario) depending on country circumstances.
- *Policy response*. CPs should discuss potential policy responses to achieve recalibrated program targets/objectives in the adverse scenario and restore stability. These can range from focused measures to a comprehensive package of policies that could be deployed should risks to program targets materialize. Such planning can mitigate resorting to less favorable policy measures at difficult times (e.g., cutting capital spending to meet program fiscal targets).[71] If a package of measures needed to achieve the program objectives in an adverse scenario is not economically, politically or socially feasible or advisable, additional financing (from the IMF, provided that robust safeguards are in place, or other sources, including through debt operations) may be needed. For countries vulnerable to currency runs and sudden stops to capital flows, CPs should consider merits of FX intervention and CFMs that could temporarily restore stability to allow time for an appropriate set of policies to be implemented (see further discussion in ¶65 and ¶66 on the Fund's institutional view (IV) on Liberalization and management of Capital Flows). Temporary monetary financing of fiscal deficits could also be considered with appropriate safeguards.
- *Applicability, communication, and examples*. In general, CPs would be recommended for UCT-quality Fund-supported programs (new and ongoing) based on country needs, risks, and capacity constraints. Country teams should get in touch with the senior reviewer in the Strategy, Policy, and Review (SPR) Department early on to reach an understanding on the

---

[69] The impact on inflation and financial sector stability could also be considered where relevant.

[70] To ensure cross-country consistency, shocks could be calibrated based on WEO alternative scenarios and global assumptions and informed by G-RAM and VE analysis, with assumptions fine-tuned for country-specific circumstances. The adverse scenario could encompass multiple risks or be used to single out one risk.

[71] Contingency planning could also be undertaken in surveillance countries to boost the value of surveillance for later program design by laying out the analytical groundwork during a less pressing non-crisis situation. Such contingency planning would need to be conducted under strict confidentiality.

need for and depth of CPs, taking into consideration capacity constraints and other factors such as access level, capacity to repay, likelihood of adverse scenario, and risks to debt sustainability. CPs are expected to be discussed in a box in the PN or included as an Annex, where appropriate. Discussions with the authorities on the CPs will be relayed to Management and reviewers—with appropriate confidentiality—in back-to-office reports and/or the SR cover memo to management. In the communication with the authorities, strict confidentiality on needs-to-know basis should be maintained. Leaks can damage confidence or undermine the effectiveness of certain measures (e.g., premature disclosure of outflow CFM measures may trigger further capital flight).

# CONDITIONALITY

*This chapter focuses on the design of specific program conditionality. Section A sets out the basis, purpose, and principles of conditionality, while section B provides guidance on engagement and communication. Section C highlights key considerations when assessing the authorities' capacity to implement conditionality. Section D provides more detail on the scope and modalities of conditionality, and section E includes guidance on conditionality in specific policy areas: monetary and exchange rate; fiscal; debt; financial. Section F discusses structural conditionality. Finally, Section G summarizes guidance on program design for fragile and conflict-affected states (FCS).*

## A. Basis, Purpose, and Principles of Conditionality

**40. As noted in section II, the basis and purpose of conditionality is to assist members in resolving their BoP problems while safeguarding Fund resources**. Conditionality—any program-related condition—is intended to ensure that Fund resources are provided to members to assist them in resolving their BoP problems in a manner that is consistent with the Fund's Articles and that establishes adequate safeguards for the temporary use of the Fund's resources. Conditionality can be established either on an *ex-ante* basis in the form of eligibility criteria, or an *ex-post* basis in the form of agreed actions to be taken, the latter being the focus of this guidance note.[72]

**41. The Guidelines on Conditionality (GoC) establishes the principles that should guide the Fund in designing and setting conditionality.** Moreover, an accompanying staff statement further elaborates on the principles underlying the Guidelines on Conditionality. Priority is to be accorded to the text of the GoC, with further elaboration being found in the staff statement on the underlying principles:[73]

[72] See operational guidance on the Flexible Credit Line, or concerning the Precautionary and Liquidity Line, for deeper discussion of ex ante conditionality. These operational guidance notes are to be updated to reflect the October 2023 Review of the FCL, SLL and PLL, Proposals for Reform.

[73] The text above comprises selected extracts of the Staff Statement on the Principles Underlying the Conditionality Guidelines. In addition to referring to the text of the Conditionality Guidelines (Decision No. 12864 (02/102)), as

(continued)

- **National ownership and capacity to implement programs.** National ownership and sound economic and financial policies and an adequate administrative capacity are crucial for successful implementation of Fund-supported programs. The member has the primary responsibility for the selection, design and implementation of its economic and financial policies. The Fund will encourage members to seek to broaden and deepen the base of support for sound policies in order to enhance the likelihood of successful implementation. The Staff statement accompanying the conditionality guidelines also clarifies that ownership along with the member's adequate administrative capacity for the implementation of the Fund-supported program is a key determinant of success. Judgments on the depth and breadth of ownership are inherently subjective and difficult, and ownership itself can change over time. The guidelines also note that the need for ownership implies selectivity: approval of the use of Fund resources depends on the Fund's assessment that the member is sufficiently committed to successful implementation.
- **Parsimony.** The Conditionality Guidelines provide that conditionality should be parsimonious and should relate to matters reasonably within the member's direct or indirect control. Conditionality must also be **"critical"**: it should be established on the basis of those variables or measures that are generally, either (i) of critical importance for achieving the goals of the member's program or to monitor its implementation; or (ii) necessary for the implementation of specific provisions of the Articles of Agreement or policies adopted under them.[74] Leaving aside conditions necessary for implementation under the Articles, a judgment that a condition is of critical importance means that if it were not implemented, it is expected that the goals will not be achieved. The principle of parsimony pertains to all program-related conditions including performance criteria, indicative targets (ITs) or structural benchmarks (SBs) (see Section II.E).
- **Tailoring to member circumstances.** The GoC provide that in helping members devise economic and financial programs, the Fund will pay due regard to the member's domestic social and political objectives, economic priorities, and circumstances including the causes of their BoP problems and administrative capacity to implement reforms. They also provide that conditionality and program design will reflect the provisions of the facility under which the Fund's financing is being provided. The causes of BoP difficulties and emphasis to be given to various program goals may thus differ among members and the appropriate financing, the specification and sequencing of policy adjustments and the time required to correct the problem will reflect those and other differences in circumstances (GoC ¶4, see also discussion in Section II).
- **Coordination.** Often the Fund works with other multilateral institutions to provide consistent and effective assistance to members. However, the Fund is fully responsible for the establishment and monitoring of all conditions attached to the use of its resources. There will be no cross-conditionality, under which the use of the Fund's resources would be directly subjected

amended, staff should refer to the full staff statement on the Principles Underlying the Guidelines on Conditionality (SM/06/14, January 11, 2006).

[74] An example of the latter would be avoidance of exchange measures subject to Fund jurisdiction or import restrictions for BoP reasons.

to the rules or decisions of other organizations. When establishing and monitoring conditions based on variables and measures that are not within its core areas of responsibility, Fund staff will, to the fullest extent possible, draw on the advice of other multilateral institutions, particularly the World Bank. The Fund's policy advice, program design, and conditionality should strive, in so far as possible, to be consistent with that of other institutions and integrated within a coherent country-led framework. The lead agency approach should be applied flexibly to accommodate areas of overlapping responsibility and different country circumstances (GoC ¶8). When appropriate, staff may also draw upon the work and advice of other multilateral institutions.

- **Clarity.** As discussed in the Staff statement accompanying the conditionality guidelines, conditionality should be transparently distinguished from other elements of the authorities' program both in staff reports and in the member's program documents. While program documents may set out the authorities' broad policy agenda for national or international audiences, such documents as well as staff reports should clearly specify the parts of the agenda that constitute understandings on which continued access to Fund resources depends. In addition, PCs should apply to clearly specified variables that are objectively monitorable. Staff should also ensure that prior actions are unambiguously defined and easily verifiable to reduce the risk of misreporting.

## B. Assessing Technical, Institutional, and Political Capacity

**42. Conditionality timetables should balance ambition with the members' technical and institutional capacity**. While the authorities should be free to set demanding timetables where they consider them helpful in driving their agenda forward, the staff should not press for overly ambitious plans. Staff often faces constraints in accurately assessing implementation capacity and political priorities. Indeed, overly demanding timetables have been a reason for frequent requests for waivers, with the caveat that program design should be ambitious and not dilute the UCT-quality standard. Conversely, programs involving substantial use of weak conditionality related to the publication of reports or development of action plans represent a low bar, and program design should involve more meaningful reforms where necessary and possible. Well-tailored conditionality with appropriate prioritization would not undermine the strength of the Fund-supported program—on the contrary, it helps focus the members' limited capacity on the most critical measures. In line with the Executive Board's call to strengthen the analysis of institutional capacity, PNs and staff reports should include an assessment of technical and institutional capacity, including any necessary capacity building proposed within the program.[75] Such assessments inevitably require significant judgment drawing on a range of possible resources. The World Bank's Country Policy and Institutional Assessment (CPIA) index provides a well-established resource for IDA-eligible countries, though this could be complemented by other tools, if necessary. Box 5 provides a (non-exhaustive)

[75] See Executive Board Assessment of the 2018 Review of Program Design and Conditionality (IMF, 2019).

list of capacity assessment tools. Use of Third-Party Indicators (TPIs) should follow established best practice and support a candid, robust, and well-documented discussion with the authorities.[76]

**43. Further to the Board's endorsement of 2018 RoC recommendation to strengthen the analysis of political capacity, staff should also assess any potential political implementation difficulties**. An assessment of political capacity aims to get a sense of the authorities' commitment to implement the Fund-supported program in the existing domestic political environment. It can help inform program design and the setting of conditionality to facilitate the achievement of program objectives, for example, by minimizing the chances of public backlash. Since it depends on political environment, the authorities' political capacity is a more fluid concept than institutional or technical capacity, with significant variation across countries. For these reasons, it is very difficult to identify or develop a single indicator of political capacity. Nonetheless, staff assessments will require the application of significant judgment, and may need to be updated periodically, to reflect political developments.

[76] Principles for best practice in the use of TPIs in Fund reports are presented in the Guidance Note on the Use of Third Party Indicators in Fund Reports, (IMF, 2018). An Updated Third-Party Indicators Digest (IMF, 2019) is revised on annual basis and remains a living database, but will not be an exhaustive compilation of all possible TPIs. The Digest is not intended to present an ex-ante positive or negative list of indicators for use in staff analysis and Fund products.

## Box 5. Institutional Capacity: Assessment Tools

The staff assessment of institutional and technical capacity could draw on the following range of in-house and external assessment tools:

- *Governance Diagnostics*. These examine the severity of corruption in a country and identify the governance weaknesses and corruption vulnerabilities across the 2018 Governance Framework's six state functions that are most relevant to economic activity: namely, fiscal governance, financial sector oversight, central bank governance and operations, market regulation, rule of law, and Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). Findings of the diagnostics have been featured in subsequent Fund engagement with member countries, have informed the country teams in program design, and have been used by country authorities to plan and enact reforms.[1]
- *Public Investment Management Assessment (PIMA).* Based on a sample of 25 countries, the IMF's recent Public Investment Management Assessment (PIMA) evaluates 15 key institutions which shape the planning, allocation, and implementation of public investments.[2] PIMA helps countries evaluate their strengths and weaknesses, identify priorities for institutional reform, and target related capacity-building needs.
- *Expenditure Assessment Tool (EAT)*.[3] The tool provides information to help assess public expenditure and identify areas to enhance expenditure efficiency or streamline spending. Using data on economic and functional classification of expenditures, the tool provides benchmarks for the level and composition of spending, against comparators (by region, income group, and OECD). EAT is a user-friendly tool which relies on an Excel-based template populated with expenditure data (e.g., total government spending, government wage bill, and employment, private-public sector wage premium, health, education and social spending, energy subsidies, pension indicators, and investment and capital stock).
- *Country capacity development engagement*. Staff should be guided by the experience and knowledge on capacity development (CD) engagement for a given country. CD engagement can help to evaluate reform-specific state capacity, underlining the need for regular consultations between the country teams and CD providers for a clear picture of current capacity and the binding constraints to its expansion.
- *Monetary Policy Frameworks (MPF) toolkit*. This toolkit is based on a previous study (Unsal, Papageorgiou, and Garbers, 2022) and accessible via the MPF portal.
- *Country Policy and Institutional Assessment (CPIA).[4]* CPIA is an index compiled annually by the World Bank for all IDA-eligible/73 PRGT-eligible countries, including presumed blending countries.[4] The index consists of an overall CPIA score and 16 detailed indicators on the quality of institutions and policies grouped into four categories: (i) economic management, (ii) structural policies, (iii) policies for social inclusion and equity, and (iv) public sector management and institutions. Countries are rated on their status in each of these performance criteria, with scores from 1 (lowest) to 6 (highest).

---

1/ For more details see 2023 Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance and Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement, (IMF, 2018). Related governance and corruption perception indicators compiled by TPIs include but are not limited to Transparency International's Corruption Perceptions Index Database, Worldwide Governance Indicators, Global Competitiveness Index, and Cambridge University's Institutional Quality Dataset.

2/ See Making Public Investment More Efficient (IMF, 2015) and Public Investment Management Assessment—Review and Update (IMF, 2018), which summarizes lessons learned of the PIMAs finalized until April 2018 and updates to the PIMA framework.

3/ See Expenditure Assessment Tool (Garcia-Escribano and Liu, 2017).

4/ The World Bank's CPIA database is available http://ida.worldbank.org/financing/resource-management/ida-resource-allocation-index and is updated during the third quarter of the calendar year.

**44. Notwithstanding the need for a case-by-case approach, the assessment of potential political implementation difficulties should consider the following issues:**

- *The strength of the authorities' mandate for action/reform*. Capacity to implement adjustment or reform is likely to be stronger for governments that have secured a large electoral majority, or where there is a strong cross-party support for action, as is sometimes the case for countries facing a deep economic crisis. In contrast, a fragile cross-party coalition is likely to have less political capital for deep reforms. Staff should consider the extent to which adjustment and reform could meet resistance due to strong vested interests, or the role of national or cultural identify and societal perceptions of fairness, with respect to economic conditions, policies, and reforms.
- *The modalities of reform and the need for coordination across different parts and levels of government*. Assessments should consider whether implementation of key measures hinges on legislative approval or actions by lower levels of government (e.g., fiscal adjustment by sub-national governments or reforms in state-owned enterprises with significant autonomy), rather than on executive actions alone. Even if a broad consensus for reform exists, such coordination may significantly lengthen the time horizon for implementation.
- *The ambition of adjustment and reform*. Staff should put program policies in appropriate context. For example, it is useful to consider how the proposed adjustment compares to historical adjustment episodes in the country and in peer countries. Similarly, for structural reform, it may be helpful to consider whether such reforms have been attempted before, and the nature and strength of likely opposition, including susceptibility to legal challenge and reversal.
- *The timing of proposed adjustment and reforms – both in terms of the political and economic cycles.* The risks for implementation tend to increase as reforms become more backloaded. Fund analysis suggests that structural reforms are more likely to be implemented in the first year ("honeymoon" period) of a program, and that conversely, implementation is much weaker in the final year of a program.[77] At the same time, adjustment and some types of reforms (e.g., labor market) are likely to be more contractionary in a downturn, which may argue for a slower implementation and/or careful sequencing (see section III). In practice, flexibility on timing and pace of implementation is limited in crisis situations.
- *The quality of communication*. As noted above, strong communication of program policies that builds a broad consensus can increase political capacity for implementation. On the other hand, poorly communicated policies and lingering uncertainty about the potential costs and benefits across different parts of the population can undermine implementation.

**45. A detailed assessment of institutional capacity and the authorities' commitment to the Fund-supported program should be included in the program risks section of SRs.** Based on the staff assessments, PNs and SRs should explicitly mention technical, institutional, and or potential challenges vis-à-vis the authorities' commitments on program implementation. Those challenges

[77] See *The Political Costs of Reforms: Fear or Reality?* (IMF, 2019).

should be discussed in the section covering program risks—including how the challenges might interact with other risk factors (e.g., economic outlook, availability of financing)—along with how program design mitigates such risks. Risk mitigation could involve measures to build capacity in key areas, including through technical assistance or training. Where there may be a case that the government has a limited ability to implement an agreed economic program owing to a lack of political support or where elections may lead to a shift in the government, the IMF Board may need adequate safeguards from opposition parties that would provide assurances that the economic program can be implemented in the event of a change of government in the course of a program (see Annex M on Political Assurances). For SRs, staff should be careful to ensure that the discussion of risks to the program (or specific measures) does not undermine the credibility and implementation of the program.

## C. Scope of Conditionality

**46. As noted above, staff should apply the principle of parsimony by ensuring that any program-related conditions are judged to be *critical.*** Generally, all critical measures must have conditionality associated with them because the Fund needs to be able to interrupt purchases or disbursements if the program is off track, or if sufficient information is not being provided to adequately monitor program implementation. In judging that a condition is critical, staff affirms that, other things being equal, the expectation is that the condition will not be eliminated later. Staff must avoid setting conditions on measures that may be desirable but that are not critical. Conditions that are not critical but that the authorities would still like to showcase could be addressed in the Letter of Intent (LOI) or MEFP. In such cases, there should be a clear distinction between these other elements of the authorities' reform agenda and the conditionality upon which Fund financing is contingent (see Annex S for further info on LOI/MEFP and other program documents).

**47. Conditions should only be established on variables or measures that are reasonably within the member's direct or indirect control**. Conditions should be formulated with clarity and should be objectively monitorable. The GoC explicitly note that program-related conditions may be set on targets and objectives (outcome-based conditionality) or taking actions/refraining from taking actions (actions based conditionality). All conditionality must be reasonably within the control of the authorities. Moreover, outcomes-based conditionality should be designed to minimize the risk of situations in which targeted outcomes are achieved by means of policies that would undermine the achievement of program goals, such as reaching an intermediate outcome-based target of higher revenue by increasing import tariffs.[78] Even when conditions cannot be applied to outcomes, there may be scope to formulate them in a way that allows flexible implementation, via a variety of actions.

**48. Program conditions should focus on core areas of Fund responsibility.** As noted earlier, the Fund is fully responsible for the establishment and monitoring of all conditions attached to the use of its resources, i.e., there will be no cross-conditionality. When establishing and monitoring

[78] See also ¶68, discussing standard performance criteria against import restrictions for balance of payments reasons.

conditions based on variables and measures that are not within its core areas of responsibility, the Fund will, to the fullest extent possible, draw on the advice of other multilateral institutions, particularly the World Bank. The Fund's policy advice, program design, and conditionality should strive to be consistent with that of other institutions and, whenever possible, integrated within a coherent country-led framework.

**49. Conditionality should normally be assessed, modified, and set in the context of program reviews.[79]** As noted in section II, the backward-looking component of reviews assesses performance and focuses on policy areas which should be specified as prior actions (PAs), quantitative performance criteria (QPC), indicative targets (ITs), and structural benchmarks (SBs). PCs and ITs for the main economic and financial indicators should be defined simply and clearly in a Technical Memorandum of Understanding (TMU) attached to the LOI. Requests and reviews should set QPCs for at least two reviews ahead for GRA supported-programs (with ITs covering subsequent reviews occurring over the 12-month period), and 12 months ahead for PRGT-supported programs. Conditionality beyond the first year of a multi-year program will normally be set in the context of subsequent reviews. Conditions can be set for specific test dates or on a continuous basis (i.e., continuous PC).[80] Conditionality can be modified in the context of the forward-looking aspect of reviews, which provide the opportunity to assess prospects for achievement of program objectives and the appropriateness of measures as new information becomes available. Conditionality is set at the time of approval of the arrangement and updated at the time of program reviews. Conditionality should normally be set (or modified) by the Board before the test date. For the establishment (or modification) of post-dated PCs (i.e., PCs for which the test date would already have passed at the time of Board consideration of the review in which the establishment or modification is proposed), the program documents would have to be signed and circulated to the Board along with the staff report before the test date, and no information on implementation of the so established conditionality would be available at the time of the Board meeting. Conditions added during reviews should be anchored on the arrangement approval documents and new added reform areas would require a clear justification of their criticality to achieving program objectives.[81] Finally, staff could use the final program review for stocktaking and to provide a preliminary assessment of achievement of the stated program goals and program implementation. More detail on the specific modalities of conditionality are below:

- **PAs.** A PA is a critical measure specified to be completed before the scheduled date of a Board discussion to approve an arrangement, complete a review, or grant a waiver. PAs can be set if

[79] In exceptional circumstances, modifications of conditionality in PRGT arrangements can be proposed outside the context of a program review. For more information, please consult 2023 Handbook of IMF facilities for Low-Income Countries (IMF, 2023).

[80] Continuous PCs include standard performance criteria on exchange rate restrictions, multiple currency practices, and import restrictions for balance of payments reasons. As all PCs, these are included in the text of Fund arrangements. It is best practice to include all standard continuous PCs in the tables of PCs and structural conditionality attached to an LOI or in a TMU. In monitoring continuous PCs, staff should ascertain continuous compliance with the PCs.

[81] The original program documents should give, to the extent possible, a general sense of the expectations and uncertainties that could require additional or modified conditionality during future reviews.

upfront implementation of measures is critical to achieving program goals or monitoring implementation, and there is significant doubt about implementation at a later date. PAs could include Parliamentary approval of measure, but this requires careful consideration of possible implications. There should be no 'silent' or 'implicit' PAs, i.e., steps that members agree to take before the program is considered by the Executive Board that are not reflected in program documentation. With respect to the implementation of PAs, the Executive Board has established a normal practice that all PAs must be carried out at least five working days before the Board discussion to which they relate. PAs are often used prominently in cases where a country has a weak track record of implementation and are useful to ensure a minimum implementation standard. However, staff should be mindful of the possibility that PAs may be implemented without genuine ownership such that its impact is nominal or temporary.[82]

- **QPCs.** A QPC is a numerical indicator whose observance or implementation is established as a formal condition for the making of purchases or disbursements under a Fund arrangement. Performance criteria will apply to clearly specified variables or measures that can be objectively monitored by the staff and are so critical for the achievement of the program goals or monitoring implementation that purchases or disbursements under the arrangement should be interrupted in cases of nonobservance. QPCs are typically set as ceilings or floors on macroeconomic variables considered critical for achievement of program goals or monitoring implementation. A determination of what is critical could be formed based on assessments of policy credibility and space, whereby a specific QPC may not be needed where policy discipline has been demonstrated as strong, or where a slippage under a plausible scenario would not undermine program objectives. Fiscal QPCs typically include fiscal balances or financing, limits on external debt (where applicable), and non-accumulation of arrears (see below). Monetary policy conditionality in Fund-supported programs would typically include a floor on net international reserves (NIR) aimed at ensuring external sustainability, and a ceiling on net domestic assets (NDA) aimed at ensuring future sustainability by avoiding excessive credit expansion (for countries with inflation targeting or evolving policy frameworks, section II.E discusses other forms of monetary policy conditionality). QPCs are often subject to program adjustors that reflect known deviations from projections for reasons outside the authorities' immediate control (see Box 6).
- ***Waivers* may be granted for nonobservance of a QPC if the Fund is satisfied that the program will nevertheless be successfully implemented** (see Annex A on waivers of nonobservance and applicability). Specifically, the non-observance must be assessed to be minor or temporary, or the authorities should have taken corrective actions for a waiver to be granted. In cases where staff judges that the QPC is no longer critical (either because circumstances have changed or because it previously erred in the design of conditionality) and is satisfied that the program will be successfully implemented, it is possible to *deem* the deviation to be minor.

[82] More generally, in addition to conditionality specified in LOIs and MEFPs, members requesting the use of Fund resources may communicate confidential policy understandings to Fund management or staff in a side letter (see Annex N).

- **ITs.** Variables may be established as ITs when they cannot be established as QPCs because of substantial uncertainty about economic trends, or to assess the member's progress in meeting the objectives of a program in the context of a program review. As uncertainty is reduced, these targets will normally be established as QPCs.
- **Structural benchmarks (SB).** Under the review-based approach, all programs should include a specified agenda for critical structural reforms, in the form of SBs or PAs, with performance primarily monitored through reviews. A member's failure to implement a structural benchmark would not, by itself, warrant an interruption of purchases or disbursements. Rather, deviations serve as an indicator that the program may be off-track. Completion of the review would then require a judgment that program objectives are being achieved. In case of substantial deviations from structural commitments and weak policy commitments to correct slippages, staff and management could decide not to propose completion of a review; an informal country matters session could be used to inform the Board about the status of discussions with the member's authorities.
- **Other.** Reviews are also the primary tool for monitoring program progress in the following areas:
    - **Financing assurances review.** As discussed in ¶35, the Executive Board will conduct a financing assurances review to ensure that program is fully financed.
    - **Monetary policy conditionality.** For countries with inflation-targeting or evolving monetary policy frameworks, monetary policy conditionality may be designed as a review-based consultation (rather than in the form of QPCs). See section II.E for more details**.**
- **Safeguard assessments.** Safeguards Assessments are diagnostic reviews of central banks control and governance functions aimed at mitigating the risks of misuse of Fund resources and misreporting of program monetary data under Fund arrangements. As a rule, staff should aim to complete a safeguards assessment prior to Executive Board approval of a new arrangement but no later than the first review under the arrangement.[83] [84] Once the first review under the program has passed, subsequent staff reports should highlight the status of assessment and, if not completed, reasons for its delay. Safeguards assessments are conducted for each new arrangement; however, an update assessment would not be required for (i) successor arrangements where an assessment was completed no more than 18 months prior to the approval of the successor arrangement; or (ii) central banks with a strong track record, if the previous assessment was completed within four years and no substantial issues were identified

[83] The safeguards process involves a continuous analysis of information obtained primarily through the collection of documents, and discussions with the authorities and the central bank's external auditors. It entails an evaluation of the central bank's safeguards framework covering governance, auditing, financial reporting, control systems, and its legal autonomy over the life of an arrangement and for as long as Fund credit remains outstanding. See *Safeguards Assessments: Review of Experience* (IMF, 2022), *Safeguards Assessment – 2017 Update* (IMF, 2017), *Safeguards Assessments Policy— Review of Experience* (IMF, 2015g), *Safeguards Assessments Policy—External Expert Panel's Advisory Report* (IMF, 2015), and *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience* (IMF, 2010, 2015 and 2022).

[84] Safeguards assessments for regional central banks are required every four years, and thus not necessarily by the first review under an arrangement.

then or during subsequent monitoring. Safeguards assessments are not conducted for members with FCL or SLL arrangements, on the grounds that qualifying countries have strong institutional arrangements in place. However, limited safeguards procedures, focused on discussions with external auditors of central banks are conducted (see Annex I in *Safeguards Assessments: Review of Experience* (IMF, 2022)). While safeguards assessments relate to the borrowing members' central banks, a separate fiscal safeguards review may be required in some cases involving direct budget financing (see section II). Staff reports should include a summary of safeguards issues for as long as Fund credit remains outstanding, including: (i) the status of safeguards assessments; (ii) any significant recommendations, including on legislative amendments; (iii) problems in obtaining access to data; and (iv) deviations from commitments relating to safeguards recommendations. Safeguards assessments recommendations may be incorporated into conditionality or structural measures under the member's program (see below). Close cooperation and coordination between FIN, other functional departments, and area departments is essential for the effective conduct of the safeguards process. FIN should be informed of any safeguards issues, including logistical issues such as the timing of new arrangements and reviews.

## Box 6. Use of Adjustors[1/]

**Adjustors protect the program from foreseeable shocks that are beyond the authorities' immediate control.** Adjustors allow the program to pre-specify the policy response to deviations from program assumptions in a manner that does not compromise the objective and predetermined nature of PCs. The automatic nature of adjustors distinguishes them from alternative ways of dealing with unanticipated developments, namely waivers and modifications of PCs during program reviews (including by drawing on pre-existing contingency plans).

**When considering adjustors, staff should be guided by the following principles:**

- They should be used judiciously, with the aim of limiting the need for major policy adjustments in the face of uncertainty and volatility of key economic variables, such as export prices, foreign financing, privatization receipts, or certain policy actions (e.g., bank recapitalization or changes in reserve requirements).
- They should be simple and clearly defined, including in the TMU and PC table. The use of complex adjustors would weaken the clarity of headline program targets and introduce additional elements into the measurement of program performance and the associated risks of measurement errors.
- They are used for well-specified transitory deviations or foreseeable events outside the authorities' control. Lasting or large deviations, or deviations that are due to multiple factors, are likely to require changes in the policy thrust and should be addressed in the context of program reviews.
- They should be based on realistic projections. For instance, in programs that consistently overestimate external financing, an adjustor that allows domestic bank financing to compensate for any shortfalls, may result in a program that is, de facto, overly relaxed.

**Several technical points should also govern the design of adjustors:**

- By convention, adjustors are applied to ceilings/floors set for the PCs rather than to actual outturns;
- If several adjustors are applied to the same PC, they should apply to the net cumulative sum of deviations from the program assumptions for these variables; and
- Unless the potential shock affects money demand, an adjustor on net international reserves should have a symmetric adjustor (with the opposite sign) on net domestic assets.

**Adjustors are frequently used to protect programs from deviations in the following:**

- *External program grants and lending* (budget/BoP support) are used to adjust the NIR floor, the NDA ceiling, and the net domestic financing of the government ceiling.
- *External project lending* – to adjust the overall fiscal balance floor, if applicable (whereas no adjustor is needed if the fiscal deficit concepts exclude project financing and expenditures), and
- *Fiscal revenues* – to adjust (usually partially) the overall fiscal balance floor or net domestic financing of the government ceiling, often applying adjustors symmetrically.

**The TMU should define the adjustors, including specification of the variables subject to adjustment, explicit adjustment formulas, trigger events, caps, and thresholds.** The baseline projection for the indicator that gives rise to potential adjustment of PCs should be included in the PC table with a footnote on the adjustor mechanism. Caps can be used where large deviations would compromise program goals.

1/ Discussion below builds upon the 2023 Handbook of IMF Facilities for Low-Income Countries and Annex I on use of adjustors in "The Modalities of Conditionality—Further Considerations", (January 8, 2002, Annex I).

## Structural Conditionality Design in Fragile and Conflict-affected States (FCS)

**Recommendations of 2018 Review of Conditionality and Program Design**

**Improve tailoring of SCs for fragile and small states**: for *fragile states*, analyze sources of fragility more systematically and streamline objectives and related SCs, by focusing on short-term realistic measures, taking into account capacity constraints; and for *small states*, focus SCs on resilience building to natural disasters, where appropriate.

**The IMF Strategy for Fragile and Conflict-Affected States** 1/

Summing up

With regard to the lending toolkit, Directors supported the view that FCS that can implement UCT-quality programs should be encouraged to do so. They supported making full use of existing flexibility in the lending toolkit and enhancing program design through realistic macroeconomic frameworks and parsimonious and tailored conditionality aligned with institutional capacity and informed by the Country Engagement Strategies (CES). 2/

---

1/ The IMF Strategy for Fragile and Conflict-Affected States (FCS), adopted in response to the Board-endorsed recommendations of the 2018 Independent Evaluation Office (IEO) report "The IMF and Fragile States," proposes a framework and a set of measures to strengthen the Fund's assistance to FCS. These include (i) adopting principles of engagement that effectively leverage the Fund's mandate and comparative advantage, (ii) rolling out a Country Engagement Strategy (CES) across FCS, (iii) calibrating IMF modalities of engagement to better serve the needs of FCS, and (iv) enhancing partnerships to amplify the Fund's comparative advantage.

2/ Country Engagement Strategies (CES) provide an assessment of fragility and conflict drivers and serve as a high-level longer-term strategic anchor for Fund's engagement with FCS. They help ensure that decisions on program design and conditionality are informed by an assessment of country-specific fragility and conflict contexts, institutional constraints to reform implementation, the distribution of corruption rents, and political economy considerations. CES also identify the main risks to Fund engagement and help guide the prioritization and sequencing of structural reforms and CD activities. For more information about CES design and requirements, see Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States (IMF, 2023).

**50. Building on the above discussion of general considerations concerning the development of conditionality, tailoring program design to FCS' specific characteristics involves additional considerations.**[85] The "IMF Strategy for Fragile and Conflict-Affected States (FCS)," adopted in response to the Board-endorsed recommendations of the 2018 Independent Evaluation Office (IEO) report "The IMF and Fragile States," established a framework and a set of measures to strengthen the Fund's assistance to FCS. To enhance lending engagement, staff is recommended to make full use of existing flexibilities in the lending toolkit to better tailor program design and conditionality to FCS circumstances. In addition, program design and conditionality in FCS will be informed by Country Engagement Strategies (CES), which identify the main fragility

---

[85] Fragile and conflict-affected states (FCS) comprise countries suffering from high levels of institutional and social fragility, measured by a Country Policy and Institutional Assessment (CPIA) score, the flight across borders of refugees, and the deployment of a UN peace operation, and/or affected by violent conflict, identified based on the number of conflict deaths in absolute terms and relative to their population. The new FCS classification methodology adopted by the Fund is aligned with the World Bank methodology. While the methodology is the same, the Fund maintains autonomy and ownership in its application. For more information about the FCS classification and list see Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States (IMF, 2023).

and/or conflict drivers, constraints to reform implementation, the long-term macroeconomic policies needed to exit fragility, strategic priorities for CD support, and scope for strategic partnerships and risks to Fund engagement. The Staff Guidance Note on the implementation of the Strategy, consistent with existing guidance, provides operational guidance on Fund lending to FCS, including (i) enhancing the realism of macro-frameworks; (ii) tailoring structural and quantitative conditionality; and (iii) the concurrent use of Staff Monitored Programs (SMPs) with emergency financing.

**51. Parsimonious use of conditionality in the face of the challenges associated with fragility and conflict should not compromise the strength of the UCT-quality of programs.**[86] The Fund does not have a lending toolkit dedicated to FCS, who can use all Fund financing instruments and facilities if they are eligible and meet the policy requirements. If the authorities are assessed not to currently have the capacity to implement a UCT-quality program, staff should discuss options for non-UCT engagement such as SMPs, possibly combined with emergency financing where countries qualify for this. For those members able to implement UCT-quality programs, the Fund's principal mode of financial engagement for the PRGT-eligible FCS is through the Extended Credit Facility (ECF), which can often be repeated, given the need for long-term engagement to help members attain a stable and sustainable macroeconomic position. Tailoring Fund-supported programs to FCS involves a delicate balancing act between realism and ambition, parsimony and granularity, gradualism and speed, as well as debt operations and fiscal adjustment – with the discussions informed by CES. The existing flexibility of the lending toolkit in designing programs and streamlining conditionality should be fully utilized (see Box 7). Well-designed conditionality can promote and strengthen ownership, demonstrating the authorities' commitment to a course of action. Ownership, as much as capacity to implement reforms, is a critical determinant of success. Program targets should be aligned with the authorities' reform plans (e.g., national reform plans and PRGT country strategy).

[86] For further discussion, see Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States (IMF, 2023).

## Box 7. Specific Guidance on Flexibility and Tailoring of the Fund's Program Engagement with Fragile and Conflict-Affected States 1/

Staff should make full use of the existing flexibility of the lending toolkit to improve program design and streamline conditionality.

***Flexibility under the Extended Credit Facility:*** The ECF offers significant flexibility for PRGT-eligible FCS and can assume post-program financing gaps if additional time is necessary to resolve protracted BoP problems, and adequate safeguards are in place as discussed in the operational guidance note on the implementation of the FCS strategy.2/ ECF arrangements have a duration of 3-5 years and can be used consecutively to accommodate the needs of members with protracted BoP problems where longer term engagement is warranted. In the case of heightened uncertainty, policies and reforms supported by the arrangement can be developed progressively, with a near-term focus in the context of credible medium-term objectives. 3/

***Realistic macro-frameworks*** should seek to reflect the structure of the economy, internalize implementation capacity and political economy constraints, take into account the risk of reform reversals, and incorporate contingency buffers to account for heightened uncertainty in FCS contexts (where appropriate). Programs should avoid overly optimistic assumptions that BoP problems would be resolved within the program period in cases where it is not feasible. The pace and composition of adjustment in Fund-supported programs for FCS should carefully factor in the implications for socio-political stability.

***Structural conditionality:*** CES should help guide the prioritization and sequencing of tailored structural reforms in FCS. Given the rapidly changing policy environment and fluid situation in FCS, critical policies identified by staff and the authorities may need to change over the life of the program. If an SB is not observed, it could be reset or modified to more realistic targets or may be even dropped provided that staff assesses that in the current situation the non-observance of the SB would no longer undermine program objectives. Similarly, if adjustment to SBs is needed owing to changes in economic conditions, staff may propose to the Board to modify SBs ahead of time.

***Well-designed floating tranches*** 4/ can also give the authorities greater flexibility in setting the timetable for implementing selected structural reforms and are likely to enhance ownership. Policies supported by floating tranches should be consistent with existing Board guidance and reflect country-specific circumstances, where the authorities are committed to reform measures but cannot pin down the exact time needed to garner broad support, build capacity, and adopt legislation and regulations.

***Quantitative conditionality:*** Heightened uncertainty and limited capacity may justify greater use of ITs under certain circumstances. ITs would be replaced gradually by QPCs as uncertainty abates or program implementation helps stabilize the macroeconomic situation and build capacity over time. The greater use of ITs needs to be carefully analyzed on a case-by-case basis and clear justification should be presented in program documents.

***Addressing Undue Misreporting Risk:*** The TMU should define QPCs clearly, with full consideration of the authorities' capacity to report data accurately and promptly. Prior actions also need to be defined clearly, and country teams are advised to share background material with relevant functional departments before determining whether prior actions have been met.

---

1/ Staff considering Fund financing for FCS countries should turn to the comprehensive and detailed discussion in Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States (IMF, 2023).

2/ Any financing gaps in the post-program period for an ECF arrangement (for an FCS or not FCS country) need to be such that, notwithstanding the gaps, the Fund is assured that the member has the capacity to repay the Fund (irrespective of a successor arrangement) and that any gaps are consistent with a sustainable debt path (See Review of the Fund's Sovereign Arrears Policies and Perimeter, Annex I, footnote 11

3/ Programs with FCS supported by an ECF arrangement follow the standard Fund policies for lending to LICs. These include but are not limited to: capacity to repay (CtR) and debt sustainability requirements, assessment of BoP needs, catalytic role of the Fund, and Poverty Reduction and Growth Strategy (PRGS).

4/ Floating Tranches are disbursements made not according to a fixed schedule, but only once certain policy actions have been undertaken or program targets achieved. Staff should refer to specific guidance in the Operational Guidance note mentioned in footnote 1 of the box.

## D. Program Development: Engagement and Communication

**Recommendations of the 2018 Review of Conditionality and Program Design**

**Encourage** well-integrated national reform plans as an anchor for Fund arrangements.

- **Improve two-way communication with the broader public to support buy-in.**
- **Encourage voluntary use of SMPs, particularly in the GRA**, to ensure monitoring of macroeconomic policies, while the authorities build political support for the critical reforms, whose delay has interrupted the program.
- **Strengthen analysis of institutional and political capacity to deliver program objectives on a realistic timetable**. Provide additional guidance on the use of PAs and analyzing institutional and political capacity.

Summing up

Reflecting the lessons from case studies, Directors highlighted the benefits of anchoring Fund-supported programs with integrated national reform plans and improving two-way communication to support broad public buy-in. They welcomed plans to strengthen the analysis of institutional and political capacity. Where programs have gone off track, Directors encouraged greater use of staff-monitored programs (SMPs) to ensure monitoring of macroeconomic policies while authorities build support for delayed critical reforms. More broadly, Directors called on staff to consider ways to de-stigmatize SMPs, promoting their use for building a policy track record, which would help facilitate access to Fund resources.

**52. The promotion of ownership depends in part on an effective process of engagement between Fund staff and the authorities during program development and design.** In responding to a member's request for access to Fund resources, staff should initially aim to ascertain, through dialogue, how the authorities intend to adjust policies. This leads to an iterative process toward understandings on mutually acceptable means of achieving the program goals, while not losing sight of domestic social and political objectives, economic priorities, and the circumstances of the member, including the causes of the BoP problem and the member's capacity to implement reforms in the necessary time frame. Particularly where the member's administrative capacity is weak, the staff will stand ready to advise the authorities on a range of available policy options and implementation plans, and to provide technical assistance as appropriate, to enable the authorities to make informed choices. It is also expected that program documents, including Letters of Intent, will reflect the authorities' own policy goals and strategies, with the cooperation and assistance of Fund staff. Countries receiving concessional financial support from the PRGT must have in place a strategy for reducing poverty while supporting strong economic growth.[87]

**53. The 2018 RoC recommended improving two-way communication with the public to broaden support for program policies and reforms, and ultimately for successful program**

[87] On the poverty reduction objectives in the context of operations under the Fund's facilities for low-Income countries please consult Appendix V of the IMF (2023), 2023 Handbook of IMF facilities for Low-Income Countries.

**implementation.** Results of a survey undertaken for the review pointed to a more favorable view of Fund outreach, possibly reflecting Fund efforts to deepen engagement with Civil Society Organizations (CSOs). Despite this progress, a significant share of survey respondents disagreed that CSOs were actively involved in program design and implementation discussions. As such, staff is strongly recommended as best practice to develop a robust communication strategy to support a request for a Fund-supported program, including with CSOs, as it helps strengthen ownership, especially in the case of politically-complex structural challenges.[88] Such strategies could include (i) how to help authorities create a communication strategy of key controversial reforms and (ii) the Fund team engaging through various channels and with different audiences. Staff should fully integrate a communication strategy into program discussions, particularly where reforms require sizable political capital, have substantial distributional impact, or are likely to fail or be reversed if not well communicated. Staff teams should support the authorities' efforts to engage in a transparent participatory process, make themselves available to give seminars, provide training, meet with various stakeholders, and engage the media. In doing so, staff should be aware of the authorities' views on staff contact with domestic groups and, if necessary, seek prior agreement. Resident representatives could be particularly useful in providing this assistance. Broadening political support for policies may require allowing more time for program formulation. Countries should also seek CSO inputs during the preparation of their national development plan, targeting the appropriate level of consultation for broad ownership.[89]

**54. For programs involving deep and politically difficult reforms, staff should ensure there is a well-crafted communication strategy that is developed in consultation with COM.** Although deeper structural reforms (e.g., subsidies, pension, health care systems, or large-scale tax reform) could produce substantial medium- and long-term gains in economic welfare, they can involve short-term costs and distributional effects. Communications of such reforms will need to convincingly argue for the specific mix, time horizon, offsetting measures to protect vulnerable groups, while explaining key trade-offs and alternatives.[90] In addition to promoting transparency and disclosure, communication should be proactive, harnessing new technologies, using multiple channels, and tailored to different audiences (see Stankova, 2019). Communication strategies also depend on the scope of impact of the proposed reforms (entire population vs. specific groups) and can build on the greater public awareness established during normal times.[91]

**55. The 2018 RoC recommended continued attention to track record building and reform implementation capacity as critical to support ownership.** The 2018 RoC noted that, where

[88] A robust communication strategy should be supplemented with a better integration of the authorities' national reform plans, and the application of good practices in reform design and implementation.

[89] In the PRGT context, a participatory process is encouraged but not required for the preparation of the Poverty Reduction and Growth Strategy (former Economic Development Document); but it is a requirement in the context of Poverty Reduction Strategy Papers (PRSP) prepared for the decision and completion points under the HIPC Initiative.

[90] Example of trade-off include different options for raising revenue, or the tradeoffs between maintaining transfer spending at the expense of infrastructure investment and a well-functioning public administration.

[91] Continued communication could also help mitigate political budget cycles, which tend to be more pronounced in countries where the public cannot effectively monitor fiscal policies (see Shi and Svensson, 2006).

appropriate, SRs should give credit to the authorities for solid track records. For countries without clear track records (e.g., in new programs), staff reports generally consider forward-looking aspects, including the country's administrative capacity and TA needs. Moreover, when a country is not yet capable of implementing a Fund-supported program, or a previous program went off track, SMPs can be used to help the authorities to build a track record of policy implementation.[92] While the historical use of SMPs has been biased toward PRGT-eligible countries, most of which are classified as FCS, the use of SMPs to re-build an off-track GRA-supported program could also be considered. While building a track record, Fund TA could play an essential role in enhancing implementation capacity, thereby fostering ownership.[93]

## E. Monetary and Exchange Rate Conditionality

**56. In setting monetary and exchange rate conditionality, staff should assess:**

- **The size of domestic and external imbalances**. Staff's assessment should be informed by clear empirical measures of inflation and, where available, inflation expectations, an informed view on the extent of the misalignment of the exchange rate, and adequacy of reserves. It should be made clear which kind of inflation (and also output) expectations are to be used to inform the assessment: either projections by Fund staff (WEO projections), data from the authorities (national surveys or based on models) or other experts (e.g., consensus forecasts). Moreover, helping the country authorities to collect/estimate/model their own inflation expectation measures could be beneficial and part of the Fund's advice, involving CD activities if necessary. As noted in section I, an assessment of external imbalances, in particular, the misalignment of the real effective exchange rate and its impact importantly on domestic demand (imports) and competitiveness, should be informed by the various tools in the Fund's external sector assessment toolkit.[94] In the presence of multiple exchange rates, an informed view about the extent of misalignment should be formed based on a variety of indicators, including the extent that transactions take place at various rates, but also the signaling value and expectation forming aspects of various rates. An incorrect assessment of the exchange rate misalignment in a program, could lead to overvalued exchange rates, inadequate import adjustment, drains on reserves (due to unwarranted efforts to support a misaligned exchange rate) and undermine the reserve accumulation goals. The Integrated Policy Framework also provides valuable insights for policymakers on when and how to deploy multiple tools with special attention to their interactions, country-specific characteristics, initial conditions, and the nature of the shocks.

[92] SMPs are normally considered a preferable option to establish a track record, while an assessment of policy commitments made in the context of disbursements under emergency financing could also be used for that purpose.

[93] For additional information on SMPs and other track record-building arrangements, please consult SMP – Updated Operational Guidance Note (IMF, 2022) and Appendix III in 2023 Handbook of IMF facilities for Low-Income Countries (IMF, 2023).

[94] See External Balance Assessment (EBA), Revised EBA-Lite Methodology, and Assessing Reserves Adequacy metric (ARA).

- **The monetary policy anchor and framework**. Staff should identify the countries' monetary policy framework (i.e., inflation-targeting, money-targeting, exchange rate anchor, or some "other" nominal anchor) and both the *de facto* and *de jure* exchange rate regimes.[95] Staff should also ascertain if the authorities have any intentions to change the monetary policy framework/exchange rate regime and assess the readiness and capacity of the authorities to implement such changes.[96] A less developed monetary policy framework could represent a key structural domestic factor linked to inappropriate fiscal and monetary policies and their interactions, which can lead to BoP issues (see Unsal, Papageorgiou, and Garbers, 2022 for a potential metric to this end). The assessment would help determine the precise modalities of monetary and exchange rate conditionality (see below).
- **The effectiveness of monetary policy**. Staff should consider the credibility of the monetary policy framework and the strength of the transmission mechanism. Relevant factors include: the degree of fiscal dominance, the track record of a commitment to low inflation, the extent of exchange rate pass-through to inflation, the technical capacity to monitor, analyze, and forecast monetary conditions, and, where applicable, the commitment to strengthen the monetary policy framework. Staff should draw on surveillance and TA to evaluate any structural gaps in the monetary policy framework or institutions.
- **The current monetary policy stance**. Staff should assess the monetary policy stance, with reference to, for example, the output gap, real interest rates, the neutral interest rate, money growth, and private sector credit growth.

**57. Monetary and exchange rate program objectives typically include:** (i) delivering a real effective exchange rate level that broadly aligns with fundamentals; (ii) building adequate foreign exchange reserves; and (iii) ensuring low and stable inflation. The relative importance of these objectives will vary, depending on specific country circumstances, particularly the nature and scale of BoP problems and the countries' policy frameworks and their effectiveness.

**58. Monetary and exchange rate objectives should, in turn, determine the focus of monetary and exchange rate policy conditionality.** For example, monetary policy conditionality can play an indirect role in meeting fiscal objectives in countries where fiscal dominance is an issue by limiting monetary financing and/or including measures to strengthen the monetary policy framework and central bank independence.[97] Moreover, where appropriate, conditionality could include the unification of multiple exchange rates (e.g., Dominican Republic, 2003 SBA), the size and

---

[95] The AREAER defines the category "Other" as countries that have no explicitly stated nominal anchor, but they rather monitor various indicators in conducting monetary policy.

[96] The *de facto* exchange regime refers to the actual conduct of exchange rate policies, which may differ from the *de jure* regime which is provided to the Fund by the authorities, based on the AREAER definition.

[97] The October 2023 WEO (Chapter 2, Box 2.2) on "Fiscal Imprudence and Inflation Expectations: The Role of Monetary Policy Frameworks" (Akbal, Comunale, Conesa, Papageorgiou, and Unsal, 2023) can also provide some evidence on the interaction between monetary policy frameworks and fiscal outcomes. This study's findings indicate that difficulties posed by higher public debt levels for managing inflation expectations in emerging market and developing economies could be helped by adopting strong monetary policy frameworks.

pace of exchange rate adjustment (Argentina 2022 EFF, 5th and 6th Review), FX market reforms to improve price discovery, and increasing exchange rate flexibility (Ukraine 2008 SBA).

**59. Decisions on the scale, mechanism, and pace of programmed monetary and exchange rate adjustment should weigh the tradeoffs with output and financial stability.** Staff should be mindful of the fact that central banks can have different monetary policy objectives, and some may (not) include low inflation alongside reducing output gap and/or financial stability (among others). Staff should also be mindful of the overall policy mix and links to fiscal policy and conditionality. Monetary and exchange rate adjustment should consider the impact on public and private balance sheets.

***Modalities***

**60. Almost all IMF-supported programs include a floor on net international reserves (NIR) to ensure external sustainability and safeguard Fund resources.** To ensure use of an agreed definition and proper monitoring, staff and authorities carefully specify the definition of NIR (as well as other key variables) in the TMU. Box 8 sets out important considerations for the design of the NIR target, including the coverage of the monetary authority, the definition of NIR, and the treatment of valuation effects. In programs with members of a currency union, an inadequate regional level of reserves would instead require a region-level commitment to a specific reserve level and/or path (see Annex O for more details).

**61. Traditionally, monetary policy conditionality has focused on quantitative targets.** For countries with monetary policy frameworks anchored on monetary aggregates, QPCs have usually been set through a ceiling on net domestic assets (NDA) to ensure domestic sustainability by avoiding excessive credit expansion.[98] This target has also been augmented with PCs or ITs on base/reserve money (BRM) in cases where money or credit growth are seen as a significant concern for inflation or banking system stability, though BRM variables may not always be reliable indicators of the monetary stance, particularly given financial innovation and shocks to money demand.[99] BRM targets that are set as QPCs should include an adjustor for changes in the reserve requirement, if applicable. In cases where fiscal dominance is a concern, the program could involve a ceiling on net domestic financing/credit to government (NCG) at the level of general government to capture public enterprises and other extra budgetary funds, and/or limits on gross financing to complement targets set on a net concept. Where a member maintains a currency board arrangement, conditionality should ensure the maintenance of full foreign reserve backing of liabilities for the duration of the program, with the QPC specifying the precise coverage required.

[98] NDA defined as reserve money minus NIR or reserve money minus net foreign assets.

[99] There is no statistical correlation observed between reserve money target deviations and inflation deviations in a low inflation context (see Conditionality in Evolving Monetary Policy Regimes (IMF, 2014)).

### Box 8. Key Considerations for Designing Net International Reserves (NIR) Targets

**The TMU should specify the precise coverage of the monetary authority.** This is important where NIR differs from, or is broader than, the net foreign assets on the balance sheet of the central bank. In programs involving disbursements of Fund resources made directly to an account of the member's Treasury in the central bank or monetary authority (i.e., direct budget financing) a composite central bank-Treasury aggregate should be used. In this case, the NIR (and NDA) measure used as a PC, should combine the central bank and Treasury positions. Where Fund disbursements are deposited to the account of the member's Treasury at the central bank, central bank NIR increases, but composite NIR remains unchanged (i.e., central bank gross reserves increase, while Treasury liabilities to the Fund increase). Similarly, while central bank NDA declines, composite NDA remains unchanged (with increased government deposits at the central bank lowering central bank NDA and increasing Treasury NDA).

**Since reserves must be usable, NIR should be defined to only include convertible, liquid, and unencumbered assets:** 1/

- *Foreign assets* constitute claims on nonresidents, net of short-term foreign liabilities that are public or publicly guaranteed; the outstanding stock of Fund credit is also netted out to ensure that the member cannot meet (miss) a performance criterion by purchasing/requesting loans (not purchasing/not requesting loans) from the Fund. Assets that are the counterpart to foreign currency reserve requirement liabilities (i.e., foreign currency liabilities of the central bank to domestic commercial banks) are often excluded from the definition of NIR since these are not usable for BoP purposes (e.g., foreign exchange interventions) or under the control of the authorities (as they would need to be refunded to the extent that foreign currency deposits of commercial banks are withdrawn).
- *Foreign liabilities* are defined as loan, deposit, swap, and forward liabilities to residents and nonresidents whose value is guaranteed in foreign currency terms (denominated or indexed). The TMU should specify if liabilities to the participants to the SDR department are included.

**Valuation effects arising from changes in the exchange rate or the price of gold should be excluded when defining the NIR floors.** NIR typically comprise assets denominated in different currencies. The TMU should specify the exchange rate at which each of these currencies will be valued for the purposes of program monitoring. To avoid any misunderstanding that these accounting rates are forecasts, constant values should be used. NDAs and NCG should also be calculated using accounting exchange rates where foreign currency items are important in the domestic banking system and where these can be monitored. Accounting exchange rates should be based on those prevailing at some recent, easily checked date (e.g., the end of the previous year) and may be updated periodically during the life of an arrangement.

**NIR adjustors should be carefully designed.** In defining the adjustor, considerations are made for whether lowering the NIR floor to accommodate shortfalls in foreign financing relative to the baseline assumptions do not compromise program goals, and whether excess financing ought to be saved or allowed to be spent wholly or partially.

---

1/ A new definition of NIR as gross reserves minus short-term FX drains is proposed for 'global consultation' as part of the BPM7 process). However, as clarified in paragraph 37 in the BPM6 update on Standardized Statistical Definition of Net International Reserves, for program design purposes, country-specific considerations remain paramount. The introduction of a standardized statistical definition should not in any way limit the flexibility to adjust the measurement of NIR for either reserve adequacy assessments or for Fund-supported program design. Country specific conditions and circumstances should be carefully considered to determine NIR. Examples of modifications include (but are not limited to) the following: (i) For establishing and monitoring Fund-supported programs, all outstanding IMF credit and loans, regardless of their maturity, should be deducted from reserve assets to measure NIR for program purposes. Long-term foreign exchange liabilities to residents and nonresidents could also be deducted, as well as other deductions to reflect country circumstances. (ii) There may be a case to exclude from foreign currency deposits, central bank FX liabilities to some residents, for example, the central government (typically government deposits) and some liabilities to commercial banks. The treatment of contingent liabilities (for example, guarantees, credit lines, and options) could vary among countries.

**62. A review-based approach to monetary policy conditionality should be considered for countries with inflation-targeting or evolving monetary policy frameworks**. Countries that have adopted more flexible and forward-looking monetary policy frameworks ascribe a greater role to policy interest rates and inflation targets or objectives. In such cases, the review-based approach to conditionality involves setting a band (or, more commonly, two bands) around a target inflation rate or other monetary policy aggregate, depending on the monetary policy framework in place. If the variable deviates outside the outer band, a consultation with the IMF Board is triggered, which would interrupt access to Fund resources until the consultation takes place. A deviation from the inner band would trigger a staff consultation, but not interrupt access to Fund resources. Review-based conditionality can be accompanied by ITs on monetary policy variables (e.g., on NDA or NCG) to address country-specific risks, such as external stability or fiscal dominance concerns. More details on the different consultation clauses are set out below:

- **Inflation Consultation Clause (ICC)**. An ICC is appropriate for inflation-targeting countries or countries with evolving monetary policy regimes, where: (i) the central bank has a track record of commitment to low inflation; (ii) it has the technical capacity (and tested models) to forecast inflation over a 18-24 month horizon; (iii) clear empirical measures of inflation expectations, which are well anchored, are available; and (iv) the transmission mechanism from interest rates to prices is well understood. The approach includes: (i) a periodic review (consistent with the program cycle) with emphasis on assessment of current inflation against forecast and implications for the inflation outlook; (ii) an ex-ante understanding between Fund staff and the authorities on a timely remedial monetary policy response, when there are or are expected to be deviations from the targeted inflation path by a pre-specified margin; and (iii) a mechanism to deal with country-specific risks. The inflation target (usually set by the authorities), as well as a tolerance band around a central inflation target, are set as a basis to guide monetary policy assessments during reviews. A consultation with the Fund's Board is triggered when actual inflation falls outside of an outer band, which will interrupt access to Fund resources until the consultation takes place. A consultation with staff is also required if actual inflation falls outside an inner band.
- **Monetary Policy Consultation Clause (MPCC)**. The MPCC is designed for countries with evolving monetary policy frameworks that are putting greater reliance on forward-looking policies and which have scope for independent monetary policy.[100] An MPCC may be appropriate when countries have minimal fiscal dominance, relatively low and stable inflation, and a good track record of monetary policy implementation supported by central bank technical and institutional development (especially the capacity to analyze monetary conditions), or if they are committed to a substantial strengthening of the policy framework. Consideration of country-specific circumstances relative to this "standard" should be undertaken flexibly on a case-by-case basis. Under the MPCC, a set of (quarterly or semiannual) monetary aggregates or inflation targets would be normally set within a single tolerance band, which would be assessed during the relevant program reviews. Deviations from the band would trigger a consultation with the

[100] For more details see Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines (IMF, 2014) and the Conditionality in Evolving Monetary Policy Regimes (IMF, 2014).

Fund's Executive Board. The review process should focus on (i) a broad-based assessment of the monetary policy stance and whether the program remains on track; (ii) the reasons for program deviations, considering compensating factors; and (iii) proposed remedial actions if deemed necessary. If a consultation with the Board is triggered due to breach of the outer band, access to Fund resources would be interrupted until it takes place and the program review is completed. If the inflation rate is the target variable, an inner band could be used as an early warning mechanism that triggers a consultation with Fund staff but—like the ICC—does not interrupt access to Fund resources. For examples of consultation with the Board in the case of breach of MPCC's outer band, see Costa Rica 2021 EFF, 4th Review. Experiences with setting the center-points and bands of MPCC clauses have been varied, reflecting country circumstances. For example, Costa Rica 2021 EFF's MPCC features fixed center point and bands, while Armenia 2022 SBA's MPCC features time-varying center-points and bands.

- **Revisions to ICC and MPCC bands.** If actual inflation falls outside the bands in the context of a program review, staff should carefully determine whether the bands should be recalibrated for the next review(s) to allow a realistic inflation path towards the inflation target. The bands should be sufficiently ambitious to encourage the remedial policy actions needed. Yet, when inflation has deviated significantly outside the original bands and staff's inflation projections for period to be tested in the next review remain outside the bands despite reasonable policy adjustments, it would be warranted to loosen the bands to an ambitious, but realistic level consistent with staff projections.

- **Considerations in relation to exchange rate policies.** In assessing appropriate monetary policy actions, trade-offs and interactions between monetary and exchange rate policy and conditionality should be thought through. For example, in countries with high FX mismatches in the bank and private sectors, depreciation of the currency could increase the risk of a systemic financial crisis. As another example, building reserves buffers may hinge on sufficiently high interest rates to prevent capital flight. It may therefore be desirable for the monetary policy to tighten more than would be needed to simply bring the inflation within the target bands, and a bias towards over-tightening could be more appropriate than the other way around.

***Conditionality on Foreign Exchange Intervention***

**63. In some circumstances, it may be appropriate to supplement an NIR target with more direct limits on foreign exchange intervention.** The need for supplementary conditionality to limit FX intervention will depend on a range of country-specific factors, including the *de facto* exchange rate regime, reserve adequacy, the assessment of real effective exchange rate misalignment, and the authorities' track record with intervention. Intervention should not be used in such a way as to prevent BoP adjustment or undermine program objectives. To this end, programs can include a commitment in the MEFP, for example, to limit FX intervention to dealing with disorderly market conditions, often in the context of broader program objectives to increase or maintain exchange rate flexibility and competitiveness. In cases where limiting intervention is deemed critical, staff could consider additional conditionality in the form of an intervention rule or a QPC on an intervention budget. Such conditionality requires a clear definition of the intervention in the TMU to specify its coverage; for example, staff should consider whether to include intervention in the swap and forward markets and/or intervention by public institutions (not just the central bank).[101] Staff should also ensure that the requirements for the provision of data in the TMU are sufficiently frequent and timely for program monitoring.

***Structural Monetary Conditions***

**64. Fund-supported programs can include a variety of structural conditions relating to members' monetary policy and central banks, depending on country circumstances (see the MONA database for examples).** The scope of structural measures in Fund-supported programs can often cover central bank operations, auditing, transparency, and financial controls, as well as conditions on exchange systems and restrictions (see below). Such conditions often follow, or are accompanied by, Fund TA.

- Strengthening central bank independence. Measures can include amending the central bank charter/law, and/or limiting monetary financing of the government to strengthen operational autonomy. Bolstering central bank capacity can be key to raising credibility, including measures to ensure recruitment of staff, and establishment of units or committees. In some cases, conditionality could cover the distribution of central bank profits, or recapitalization of the central bank.
- Enhancing the monetary policy framework and toolkit. Programs can focus on clarifying the central bank's mandate or framework, or developing plans to change frameworks (e.g., a move to inflation-targeting). Measures can also focus on improving the transmission mechanism, e.g., establishing or improving an interest rate corridor, developing the yield curve by introducing government securities with extended maturities, improving central bank's liquidity forecasting and management, or changing the reserve requirement regime for commercial banks. Programs often also include measures to improve communication, such as publication of inflation forecasts and monetary policy reports, which increase the effectiveness of monetary policy.
- Increasing exchange rate flexibility. As noted above, programs can include measures to develop an FX intervention strategy or rule (e.g., Moldova 2016 EFF, 4th and 5th Reviews) or the development of competitive FX auctions in spot and forward markets to facilitate two-way exchange rate flexibility (see Box 3 in Jamaica 2016 SBA).[102]
- Lender of last resort issues. Programs can include objectives on: improving liquidity forecasting and management; strengthening emergency liquidity assistance, including necessary agreements

[101] The overarching principle of the Fund's transparency policy is to "strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure." In the case of FX intervention policies, staff should consider whether the details of an intervention limit meet the criteria for "highly market sensitive material" under the Fund's Transparency Policy, and are eligible for deletion from the published staff report (see Annex E). Staff should also consider the use of side letters to communicate the authorities' policy intentions that highly confidential (see Annex N).

[102] On FX auctions, please refer to ¶8 of the forthcoming Guidance Note on Multiple Currency Practices for a discussion of the criteria for these auctions that are not considered official action under the new MCP that will become effective on February 1, 2024.

(e.g., memoranda of understanding) between the central bank and finance ministry; and crisis management.

- Strengthening transparency and financial safeguards. In some cases, particularly in fragile states or those countries with limited institutional capacity, strengthening the central bank's accounting systems and auditing (and sometime publishing) financial statements, are relatively common approaches in programs to improve transparency and strengthen financial safeguards. In this regard, staff should consider whether safeguards assessment recommendations may be incorporated into conditionality. Audits can also be required to verify program performance data, e.g., on NIR or NDA data.

***Capital Flow Management Measures (CFMs)***

**65. Where relevant, staff could draw on the Fund's institutional view (IV) on Capital Flows to assess whether CFMs are appropriate for resolving the member's BoP need.**[103] The Fund's IV has no mandatory implications for the Fund's financing role. In particular, members' rights under Article VI, Section 3 continues to be interpreted as generally precluding the Fund from requiring the removal of capital controls as a condition for access to the Fund's resources.[104] As in the surveillance context, however, the IV could inform the staff assessments of whether CFMs are/could be an appropriate element for the program. There are programs that have included measures aimed at liberalization of capital controls (CFMs) – the phase out of surrender requirements (e.g., Honduras 2019 SBA-ECF) and liberalization of the capital account (e.g., the Ukraine 2023 EFF requiring a preparation of a conditions-based strategy to ease FX controls (i.e. exchange and CFM controls).

**66. In particular, the IV notes that in crisis situations, or when a crisis may be imminent, there could be a temporary role for CFMs on financial outflows**. In such situations, CFMs may be desirable if they can help to prevent a full-blown crisis. CFMs on outflows could prevent a free fall of the exchange rate and depletion of international reserves, providing breathing space while fundamental policy adjustment is implemented. Staff should ensure that CFMs are appropriate and used as part of a broader policy package and not as a substitute for warranted macroeconomic policy adjustment. CFMs should also be transparent, temporary, and seek to be non-discriminatory, though this may be hard to avoid in crisis situations. CFMs should also avoid leading to external payment arrears or default, particularly on sovereign debt, which can undermine relations with creditors and damage international trade and the payments system. CFMs could also be designed as part of a contingency plan to be implemented if downside risks materialize, e.g., a loss of market confidence.[105] Staff should bear in mind the challenges associated with ensuring a smooth and

---

[103] See Review of the Institutional View on Liberalization and Management of Capital Flows (IMF, 2022), The Liberalization and Management of Capital Flows—An Institutional View (IMF, 2012) and related *Guidance Note for the Liberalization and Management of Capital Flows* (IMF, 2013) and *Managing Capital Outflows—Further Operational Considerations* (IMF, 2015).

[104] A limited exception to this principle is the Fund's policy on non-accumulation, reduction or elimination of external payments arrears, including arrears evidencing capital restrictions.

[105] Given market sensitivities, staff should consider if/how such contingency plans should be shared with the Executive Board (see Annex N on Side Letters).

timely exit from CFMs in the future – a discussion of these issues should be included in PNs and staff reports, where relevant, in consultation with SPR-LEG-MCM's interdepartmental capital flow group.

***Exchange Restrictions and Multiple Currency Practices (MCPs)***

**67. Staff should determine whether a member has introduced (or intensified existing) exchange restrictions or introduced or amended MCPs. Fund arrangements (except FCL, SLL, and RSF arrangements) and the Policy Coordination Instrument should always include standard continuous performance criteria (standard continuous targets for the PCI) on exchange restrictions, MCPs, and bilateral payments agreements.** Specifically, these standard continuous performance criteria (standard continuous targets for the PCI) require that, at any time during the period of the arrangement (or PCI in PCI-programs), the member does *not*: (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify MCPs (and the elimination of MCPs is encouraged and may be a program objective); and (iii) conclude bilateral payments agreements that are inconsistent with Article VIII. In addition, a standard continuous performance criterion precludes the imposition or intensification of import restrictions for *BoP reasons*. These continuous PCs are always included in the text of Fund arrangements and it is best practice to list them in the PC table. Staff should raise awareness with the authorities of this standard conditionality, to be observed continuously, and seek proactively information on policies that can give rise to breaches of the PCs. Moreover, the member is responsible for providing information to the Fund to assess compliance with the conditionality set by the Executive Board and should consult with staff in advance of taking action to ensure that it would not give rise to nonobservance of the conditionality. In the event that the above conditions are not met at any time during the period of the arrangement, the member will need to request, and the Board will need to grant approval of a waiver of non-observance of the relevant PC. [106]

**68. In addition to their monitoring under Fund conditionality, the introduction or maintenance of exchange restrictions or MCPs, absent Fund approval, constitutes a breach of a member's obligation under the Articles of Agreement.**[107] Specifically, the maintenance of such restrictions and/or MCPs without the Fund approval (except where the restrictions or MCPs are maintained under the transitional arrangements of Article XIV) constitutes a breach of a member's

[106] For the grounds for waivers of non-observance of performance criteria against (i) introduction or intensification of exchange restriction; (ii) introduction or modification of MCPs, and (iii) conclusion of bilateral payments agreements under Article VIII, see the discussions in paragraphs 50, 55-57 and 76 of the new Guidance Note on Multiple Currency Practices.

[107] Exchange restrictions are restrictions on payments and transfers for current international transactions. Multiple currency practices occur when official action causes exchange rate spreads to differ unreasonably from those that arise from the normal commercial costs and risks of exchange transactions. Staff should work closely with MCM and LEG to assess the economic aspects of restrictions or practices and determine if they violate the Articles of Agreement. For more information, see Articles VIII and XIV of the Articles of Agreement, Decision No. 6790-(81/43) on multiple currency practices. With respect to MCPs, a new policy was adopted in July 2022 that repeals the latter decision effective February 1, 2024. For the new policy approved in July 2022, see the July 2022 Review of the Fund's Policy on Multiple Currency Practices—Proposals for Reform (Policy Paper No. 2022/036) and its related Decision No. 17292-(22/63) and Guidance Note on the Fund's Policy on MCPs.

obligations, respectively, under Article VIII, sections 2 and 3.[108] For restrictions or practices subject to Article VIII, Sections 2 (a) and 3, the staff appraisal should make a recommendation concerning Board approval.[109] For those members that have not yet accepted these obligations, staff should encourage them to do so in accordance with the considerations in the Fund's Guidance Note on Procedures for the Acceptance of Obligations under Articles VIII. Sections 2, 3 and 4. Members must also notify the Fund under the special approval procedures of Decision No. 144-(52/52) if they impose restrictions on the making of payments and transfers for current international transactions solely for the preservation of national or international security.

## F. Fiscal Policy Conditionality

**Recommendations of the 2018 Review of Conditionality and Program Design**

- **Use more granular fiscal conditionality.** Where relevant for meeting program objectives, PCs or ITs (e.g., a floor on capital spending or revenue performance, or ceiling on current expenditure), as well as prioritizing SBs on social sector issues or capital investment management, could help ensure higher-quality fiscal adjustment, including higher levels of public investment. Nevertheless, more granularity could jeopardize parsimony, reduce flexibility and potentially have adverse implications for ownership, highlighting the importance of a case-by-case approach and streamlining conditionality in other areas.
- **Increase focus on the quality of social spending and the impact of program policies on poor and vulnerable groups.** This should be underpinned by early engagement with authorities on the topics, and continued development of Fund policy advice on sustainable social spending, drawing on the expertise of international development institutions, including to strengthen data quality.

Summing up

Most Directors saw room for more granular fiscal conditionality, particularly capital spending floors or revenue targets, to help improve the quality, composition, and growth orientation of fiscal adjustment. At the same time, they stressed the need to retain sufficient flexibility and take due account of member countries' implementation capacity. Where relevant, Directors also supported focusing on the quality of social spending and prioritizing structural conditions on social issues. They favored taking a case-by-case approach and streamlining conditions to maintain parsimony. Directors emphasized the importance of close collaboration with other international financial institutions, as appropriate, and of early engagement with country authorities, which would also help strengthen ownership.

**69. Fiscal policy conditionality should reflect the general fiscal policy objectives of the program, building upon national reform plans and recognizing the social and distributional implications of the proposed policies**.[110] The four elements of a comprehensive and internally

[108] The transitional arrangements under Article XIV allow members to maintain MCPs or exchange restrictions that were in place at the time at which they joined the Fund.

[109] See forthcoming Guidance Note on Procedures for the Acceptance of Obligations Under Article VIII, Sections 2, 3 and 4.

[110] The ensuing section builds from various FAD pamphlets, papers, and notes, including Guidelines for Fiscal Adjustment (IMF Pamphlet No. 49, 1995), Fiscal Adjustment for Stability and Growth (IMF Pamphlet No. 55, 2006), Strategies for Fiscal Consolidation in a Post-Crisis World (February 4, 2010) and How to Select Fiscal Rules—A Primer (2018).

consistent fiscal policy program agenda include: (i) a clear fiscal policy anchor; (ii) a well-motivated discussion of the size and speed of adjustment consistent with prevailing political economy considerations; (iii) specific and high-quality supporting measures; and (iv) appropriate supporting structural reforms. The following discussion provides guidance on weaving these interdependent building blocks together into an overarching fiscal strategy.

***A Fiscal Policy Anchor***

**70. To facilitate communication, transparency, and accountability, programs should include a clearly articulated and justified fiscal policy anchor (i.e., the overarching fiscal policy objective) and operational targets (i.e., fiscal targets based on indicators of progress toward the anchor that may be proposed to be established as conditionality in a Fund-supported program).** This could involve an overall objective anchored in a fiscal stock value (e.g., the level of government debt), working in concert with a projected fiscal flow indicator that serves as the key fiscal quantitative element for program conditionality (e.g., a target for the overall deficit). In determining whether a fiscal target should be proposed as conditionality in a Fund-supported program (e.g., QPC, indicative targets), principles governing Fund conditionality as described in the "Conditionality" section of this guidance note apply. Beyond the abovementioned fiscal flow target, a broad range of other fiscal indicators could also be deployed as program conditionality, depending on specific program objectives, economic structures, and other country circumstances. In selecting a target that may be proposed as conditionality:

- ***Targets that may be proposed as conditionality should be operational, measurable, and communicable.*** The target should be operational, i.e., the budget aggregates that may be proposed as program conditionality and impacting the anchor should be largely under the control of the policymaker, and easily measurable to foster accountability. At the same time, targets should also be relatively simple to ensure that objectives are readily understood by policymakers and the public.[111] Balancing these considerations inevitably involves tradeoffs. For example, a QPC based on a ceiling on the overall balance deficit is easy to communicate and offers a clear narrative on the evolution of government financing requirements and the external account. However, its simplicity could obscure important macroeconomic considerations on the structure of fiscal policy. QPCs on other variables, e.g., an adjusted overall or primary fiscal balance target, could better reflect country characteristics and underlying fiscal effort, but would weaken the link to debt and blunt the signaling impact.[112, 113] No single fiscal target can fit all

[111] These suggestions build upon principles for the selection of fiscal rules outlined in Fiscal Policy: How to Select Fiscal Rules, A Primer (FAD, 2018).

[112] For a fuller discussion of measures to assess the fiscal stance, please see Fiscal Adjustment for Stability and Growth (IMF, 2006).

[113] For resource rich countries, a non-resource primary balance (NRPB) could be a mean to delink the fiscal target from volatile resource revenue, which typically originate from abroad. That said, focus on this measure is most appropriate for countries where limited resource reserve horizons give rise to exhaustibility concerns, whereas countries with very large reserves might target a structural primary balance, which aims to strip out the cyclical component of resource revenues. For more discussion, see Macroeconomic Policy Frameworks for Resource-Rich Developing Countries (IMF, 2012).

circumstances, so program documents should thoroughly consider and justify the choice of a specific anchor and the targets that may be proposed as conditionality that feed into it. Programs often build in adjustors to buttress this target, providing a cushion against foreseeable shocks beyond the authorities' control. In principle, such adjustors should be used sparingly, clearly defined in program documents, and aim only to smooth over temporary deviations. A symmetric adjustor to fiscal targets is often the most straightforward approach, notably where there is uncertainty on the timing and size of external financing. However, an asymmetric adjustor may be more suitable where deviations threaten overall program objectives; for example, where shortfalls on projected fiscal revenues justify only a partial pass-through to the deficit and financing targets.[114] Once established in the context of conditionality, switching anchors should be avoided, since this could undermine transparency, communication, and program credibility.

- ***The coverage of a QPC on a fiscal target should be as broad as feasible.*** Programs should focus on the broadest possible definition of government, e.g., general government or the public sector, since a narrower central government definition may fail to capture problems between levels of government or in public sector institutions. However, this may not be feasible due to data constraints. Program documents and the statistical issues annex should clearly specify the level of government covered by fiscal data, and flag potential fiscal risks that stem from gaps in coverage, including contingent liabilities in the banking system, state-owned enterprises, subnational levels of government, and public private partnerships (PPPs).[115] Moreover, where the inability to have a clear view of all government activities heavily impairs the ability to assess the fiscal stance and evaluate risks, fiscal policy conditionality under a Fund-supported program should prioritize steps to improve the coverage of the public sector.
- **The setting of a QPC on a fiscal target should also take into consideration the accounting basis of fiscal reporting.** Governments often record transactions in accrual or cash basis, or some combination thereof.[116] Under cash accounting, transactions are recognized only when the associated cash is received or paid. Under accrual accounting, transactions are recorded as economic events occur, as well as when the related cash receipts and payments change hands.[117] The program documents should clearly explain whether the fiscal targets are based on cash

[114] For additional discussion of the design of adjustors on quantitative conditionality, please see Handbook on IMF Facilities for Low-Income Countries (IMF, 2023, Appendix II).

[115] See Guidelines for Fiscal Risk Disclosure and Management (IMF, 2009) and the Second Review of the Implementation of Government Finance Statistics Framework to Strengthen Fiscal Analysis (IMF, 2017).

[116] Governments can also record transactions based on commitment or due-for-payment. Commitment transactions are recorded when commitments have been undertaken, typically when purchase orders are issued. Due-for-payment is the latest time that payments can be affected without loss charges.

[117] Economic events can include the delivery of a taxable service by a private company (the government accrues tax revenue), performance of a public service by a government employee (for which the government accrues a salary and perhaps a pension expense), or the loss or theft of a government asset such as an equipment (for which a reduction in the asset stock will be recognized). See Implementing Accrual Accounting in the Public Sector (IMF, 2016).

and/or accrual accounting, and whether they are derived from revenues and expenditures (above-the-line) numbers or financing (below-the-line) numbers.

- ***An accrual-basis fiscal target building from above-the-line data offers several benefits in terms of transparency, accountability, and financial management, but also requires significant implementation capacity.*** First, by capturing both cash transactions and non-cash flows in financial statements, accrual-based fiscal reports provide a more comprehensive view of the government's financial performance and the cost of government activities. Second, accrual accounting can help focus greater attention on the part of policymakers and the public on the acquisition, disposal, and management of government assets, liabilities, and contingent liabilities. Third, by consolidating not only central government ministries and agencies but all institutional units under government control, accrual accounts provide a more complete picture of the financial position of the whole public sector. Fourth, by reporting stocks and flows within an integrated accounting framework based on internationally accepted standards such as GFSM2014 and IPSAS, accrual accounting can improve the reliability and integrity of government financial data. Given the significant capacity requirements associated with accrual basis reporting, country teams should closely coordinate with PFM experts in FAD to establish whether fiscal targets can be established on this basis while still minimizing any risk of misreporting.
- ***A cash-basis fiscal target building from below-the-line data is appropriate in cases where PFM is still weak.*** While accrual accounting is more accurate, it requires significant capacity to implement (notably debt management, commitment controls, and cash management), which many developing countries lack. In these cases, below-the-line monetary data is typically available on a timelier basis making a cash-basis fiscal target more appropriate. Since cash basis accounting ignores non-cash transactions (e.g., arrears and grants in kind), staff should seek to reconcile discrepancies between above-the-line and below-the-line data. [118] A common strategy to facilitate reconciliation is to supplement the use of a cash-basis fiscal QPC with an IT on the net change in arrears coupled with a transparent arrears clearance strategy.[119]

### *The Size and Pace of Adjustment*

**71. Where fiscal pressures are generating a BoP need, the size and pace of the fiscal adjustment should be calibrated to address both short-term liquidity needs and restore/strengthen solvency, with due consideration of the political economy implications of policies covered in a Fund-supported program.** Adjustment should address the underlying fiscal problem, taking into consideration the quality and type of adjustment measures, political economy, and other country-specific characteristics. The amount of fiscal adjustment will depend on the

---

[118] See Guidelines on Public Expenditure Management (IMF, 1999), which provides recommended presentations for reconciling cash basis deficits with expenditures on a commitment basis.

[119] A strategy is also needed for the clearance on accumulated arrears. A full technical discussion is available in Prevention and Management of Government Expenditure Arrears (IMF, 2014).

ambition of program objectives and financing constraints and should be assessed relative to a scenario with unchanged policies. Key considerations include:

- **Liquidity needs.** Intense liquidity pressures, e.g., in cases where the government is unable to tap financial markets or faces high bond spreads, will require faster and larger upfront adjustment. Where liquidity pressures are less acute, adjustments can be implemented at a slower pace to avoid a sharp and sudden fiscal retrenchment. However, the size and pace of adjustment should be sufficiently credible to improve or stabilize debt dynamics and restore market confidence. This, in turn, requires realistic macroeconomic assumptions for growth, interest rates, and exchange rates, (see section I and Annex X for further discussion of tools to gauge the realism of the program baseline).
- **Solvency issues**. Solvency and liquidity are often interlinked: solvency concerns may lead to financing problems, and financing problems may induce insolvency, as larger primary surpluses are required to meet the higher interest bill. In practice, solvency is typically assessed using debt sustainability assessment tools, focusing on whether the public debt-to-GDP ratio is stable or declining. A sustainable debt path needs to be underpinned by feasible adjustments—i.e., economically, and politically deliverable. In cases where large fiscal consolidation is needed to stabilize the debt-to-GDP ratios, the realism of planned fiscal adjustment should be discussed in the program documents.[120] Other long-term pressures, such as increasing spending due to demographic change, should also be anticipated when setting the adjustment path.
- **Availability of financing**. External borrowing should be based on an assessment of the BoP need, the market's appetite for sovereign bonds, prospects for other official borrowing, and expected inflows through the financial system. Domestic borrowing should be based on assumptions about changes in broad liquidity, which in turn depend on money demand developments (given macroeconomic parameters such as growth and inflation), net foreign asset projections consistent with BoP projections, and assumptions regarding credit to the private sector that are consistent with growth projections. Other important considerations include (i) avoiding central bank financing of the government and (ii) being mindful of a growing reliance on the domestic banking sector that increases bank-sovereign risks.
- **Cyclical position of the economy.** Fiscal policy is an important aggregate demand management tool, with additional repercussions for inflation. Fiscal consolidation should ideally be minimized until the economy enters the expansionary phase of the business cycle to mitigate contractionary first-round effects. In practice, this may be difficult to achieve in crisis cases, including where a macroeconomic uncertainty shock is severe (see ¶13). Adjustment will also be

[120] Using a sample of 91 adjustment episodes of countries during 1945–2012 that needed and wanted to adjust in order to stabilize debt to GDP, Escolano et al., 2014 found that, in at least half the cases, countries improved their cyclically adjusted primary balances by close to 5 percent of GDP.

more successful when coordinated with monetary policy, if the macroeconomic and public debt situation, as well as the institutional setting, permit.[121]

- **Technical and institutional capacity.** The pace of adjustment should be aligned with the authorities' implementation capacity, particularly if countries face significant institutional weaknesses. In such instances, the program should consider integrating capacity development (CD) within the program design, drawing on relevant external expertise, and promoting inclusive growth in the medium term.
- **Political capacity.** Frontloading adjustment is, at times, necessary to signal a decisive break in policies, seize a window of opportunity provided by a new mandate, or, to some extent, help avoid reform fatigue under a lengthier adjustment. Early adjustment can also increase the potential for the government to reap a political gain before the next elections if adjustment is successful. A case could also be made for backloading where, for example, a sudden decline in public sector employment could put significant stress on the political and social cohesion, especially if social safety nets are lacking. Fund-supported programs typically focus on the distributional consequences of reforms on the most vulnerable, i.e., the lowest income quartile, where backloaded adjustment affords more time to develop and implement strategies to mitigate negative impacts (see the discussion of social spending below).[122] In some instances reform impacts may be felt by the middle class (e.g., energy subsidy reforms) with important political economy impacts. Whatever the case, it is important that Fund-supported programs clearly recognize the social implications of policies but avoid internalizing the authorities' political constraints.

***Composition and Quality of Specific Measures***

**72. Programs should aim to deliver a high-quality adjustment with sustainable and durable reforms, which may be proposed to be established as structural benchmarks.** The required amount of fiscal adjustment is not independent of the quality of the measures underlying its implementation. Quality is determined by the sustainability and the durability of the measure being considered, with reference to alternatives and the relative impact on investment, production incentives and the external account. The program's fiscal strategy should:

- **Balance revenue and expenditure measures**. Fiscal adjustment often requires difficult decisions with regards increasing government revenue and reducing spending. While several studies have found expenditure reductions more likely to be successful in reducing deficits, others find cases where revenue mobilization is more important, or that success depends more on sustaining efforts rather than the composition of measures per se.[123] As a general principle,

[121] A global recovery can also offer a window of opportunity to substitute rising external demand for any fiscally induced slowdown in domestic demand. If domestic and external imbalances are large, even though the economy may be slowing down or in recession, avoiding or responding to rising inflation and a weakening balance of payments may be paramount.

[122] See below section on social spending for further guidance.

[123] See Escolano et al., 2014 for a selective review of the relevant literature.

the composition of adjustment should be driven by a thorough assessment of country-specific weaknesses, including of public sector size and trends.[124] Revenue measures may be needed in cases where mobilization levels are relatively low, or where the adjustment need is so large, that a combination of both expenditure and revenue measures is required. When determining the composition of adjustment, it is important to be cognizant of the distributional consequences of the measures that may be proposed as a structural benchmark (e.g., progressivity of tax measures, and the incidence of expenditure measures), where the preference would be for a consolidation that is progressive. Attention to a proper mix and phasing of policy instruments is also essential. The need for upfront results often leads to an emphasis on expenditure reductions is in the early stages of adjustment, but cuts to investment and services can damage growth. Thus, structural reforms affecting expenditure, revenue, and public enterprises need to be an early priority to allow for a more balanced fiscal adjustment.

- **Target high-quality measures.** High-quality measures improve incentives and foster long-term growth and efficiency. They minimize distortions, improve supply-side incentives, and are permanent. Quick fixes (e.g., temporary tax measures, sales of public assets, or postponement of maintenance spending) with no impact on the underlying deficit could be counterproductive and should be viewed as a last resort. Specific measures should aim to be durable over the longer term, without diminishing the efficiency of public sector operations, and minimizing the impact on growth. Program documents should justify the selection of individual fiscal measures, including based on assumed timelines and yields.
- **Identify contingency measures, where appropriate.** Projected yields are uncertain, particularly on the revenue side in economies undergoing substantial structural change, facing diminishing traditional tax bases or fundamental weaknesses in the tax system. Moreover, major reforms can require substantial lead times to develop new legislation or overhaul basic processes.[125] To buttress the realism of assumptions, program documents should clarify any discounting of potential yields and make explicit potential contingency measures that could offset weaker-than-expected performance.

**73. In line with the recommendations of the 2018 RoC, staff should consider granular fiscal conditionality to help support high-quality fiscal adjustment.** The 2018 RoC found that in the period of study the quality of fiscal adjustment had often fallen short of that envisaged at the outset of the program. This had been notable in developing countries, where revenue shortfalls may have prompted capital spending cuts to comply with overall program fiscal objectives, but undermined growth forecasts.[126] Good practice involves conditionality that targets specific aggregates (e.g., capital, or social spending, or revenue). Such use of more granular fiscal conditionality should be on

[124] The appropriate size of the public sector also depends on societal preferences and country characteristics such as per capita incomes and demographics.

[125] For discussion of key elements underpinning successful episodes of domestic revenue mobilization, please see Akitoby et al., 2018 and *IMF Regional Economic Outlook: Sub-Saharan Africa* (2018).

[126] See *2018 Review of Program Design and Conditionality* (IMF, 2019).

a case-by-case basis, and staff should ensure that parsimony and ownership are not jeopardized, by avoiding overlaps in conditionality and maintaining alignment with the authorities' priorities.

***Social Spending***

**74. Where relevant, both GRA and PRGT-supported programs should seek to protect social spending and mitigate the adverse effects of program measures on the poor and vulnerable.**[127] Social spending, as defined in IMF (2019), comprises spending on social protection which includes social insurance and social assistance programs, and education and health.[128,129] A PRGT-supported program shall indicate how the program advances the member's poverty reduction and growth objectives, in line with the objectives and policies of the program. This distinction from GRA-supported programs reflects the aim of PRGT-supported programs of reducing poverty and protecting the vulnerable. Program objectives could include protecting the level of social spending and, whenever possible, enhancing the quality of social spending, recognizing that it takes time to design and implement such reforms. Such objectives and related conditionality should be tailored to country-specific circumstances, including the intensity of short-term macro-fiscal pressures, the pace and size of adjustment needed, longer-term structural challenges, and national development priorities. For example, in a health crisis, naturally greater emphasis may be placed on securing adequate social spending, especially health spending.[130] The SR should explain clearly how conditionality helps achieve social spending objectives.

**75. Staff should ensure that conditionality on social spending reflects the criticality of measures and implementation capacity, particularly in fragile states.** As in other areas, program design should abide by the principle of parsimony, particularly in fragile states. It is neither desirable, nor practical, to cover all areas of social spending in one program. Rather, the program should focus conditionality on critical areas of social spending, e.g., increasing the amount of spending if staff assesses it to be inadequate, and/or improving the efficiency of spending. Where the quality of spending is generally low spending efficiency can be improved by, for example, reallocating within

---

[127] Vulnerable groups are country specific, and can include, for example, the poor, elderly, disabled, children, youth, and/or women. A working household who was not poor can be vulnerable to external shocks or major policy adjustment and becomes poor in the event of adverse shocks and/or policies' distributional effects. Programs should aim to mitigate the impact of policy adjustment on such highly vulnerable but non-poor groups of people, to the extent possible.

[128] See *A Strategy on IMF Engagement on Social Spending* (IMF, 2019). Social insurance aims at protecting households from shocks that can adversely impact their incomes and welfare and is typically financed by contributions or payroll taxes, such as pensions and unemployment. Social assistance aims at protecting households from poverty and is financed by general government revenue. The appropriate definition of basic education and health spending is country specific. It will vary by level of development and existing level of access. Consistent with practice in other international development institutions, the terms *social assistance* and *social safety net* are used interchangeably.

[129] For detailed guidance by sector, background notes are available. On pension, please see *IMF Engagement on Pension Issues in Surveillance and Program Work* (IMF, 2022). On social safety nets, please see *IMF Engagement on Social Safety Net Issues in Surveillance and Program Work* (IMF, 2022). Notes on health and education spending are also forthcoming.

[130] See *How to Operationalize IMF Engagement on Social Spending during and in the Aftermath of the COVID-19 Crisis* (IMF, 2020).

spending items, streamlining administratively costly and duplicative social programs, enhancing PFM systems, or improving targeting methodology with higher quality data. Conditionality should be underpinned by analysis of the program's impact on poor and vulnerable groups and may warrant close collaboration with International Development Institutions (IDIs). The Fund, however, remains responsible for designing and assessing conditionality, and this responsibility cannot be delegated to other institutions, while inputs from IDIs can be important in this process.

**76. Mitigating the adverse effects of adjustment and improving spending adequacy can usually be addressed by including quantitative conditionality.** Country authorities should take the lead in defining social and other priority spending, with analytical support from the staff. The following factors should be considered when designing program targets to strengthen the use of quantitative conditionality:

- **Quantitative targets for social spending ("floors") should be carefully defined.** The program objectives for social spending can be expressed, for example, as a share of public spending, as a share of GDP, or in real per-capita terms. These objectives are then translated into program targets, which are set in nominal terms. In case of PRGT-supported programs, i) for those seeking fiscal consolidation, key social spending should not decline as a share of public spending, and preferably be at least maintained in real per capita terms; and ii) for those entailing fiscal expansion, program design should consider expanding social spending, in line with national development priorities. The coverage of social spending floors should be explained in program documents and linked to program objectives and predictable financing.
- **Social spending with the greatest impact on the vulnerable should be prioritized.** Staff should exercise judgment in defining the perimeter of the targets. A more narrowly defined target (e.g., spending on specific social protection programs for the most vulnerable groups) may be desirable, particularly when resources are limited or when protecting specific programs is a priority. A broader target (e.g., covering all education and health spending) may be needed when protecting all budgetary resources for social spending is crucial or when disaggregated data on social spending are not available.[131] If financial resources are available, country authorities might choose to combine universal access to selected key social protection programs with some targeting to fill existing education, health, and social protection gaps among poor and vulnerable groups.
- **Financing sources need to be carefully considered.** The authorities should ideally have adequate control over their financing sources to avoid unexpected shortfalls. If the spending targets are designed to be met in part through financing that is outside their control, such as donor support, contingency plans should be considered.[132] When social spending is directly financed by donors, the availability and size of such off-budget spending should be discussed

[131] Program documents should explain the data gaps and discuss how the challenges will be addressed by building capacity.

[132] Adjustors can be used for this purpose, but they should be used parsimoniously and capped on the downside to avoid excessive decline in social spending. If foreign funding exceeds projections, expenditure can increase by the full excess provided that a country can meaningfully absorb the additional expenditure.

and documented in program documents. Country teams should also be mindful of the positive macro impact of social spending, via relatively high fiscal multipliers.

**77. Where relevant, programs should consider *structural measures* to strengthen social safety nets and improve the quality of social spending in the medium term**. If properly designed, structural measures could support the authorities meeting quantitative targets efficiently.[133] Structural conditionality should be critical for the program's success and would typically apply to reform milestones. Such reforms may also contribute to creating fiscal space over time. Factors to consider when designing structural measures include:

- **Type**. Measures may include developing a strategy for strengthening social spending (or relevant subcategories), introducing new social assistance schemes, or redesigning existing ones. Wherever feasible, programs could also include measures that could help enhance the efficiency of social spending, such as a road map for implementing identified measures to increase value for money in the education sector. The use of such measures will typically require leveraging advice from IDIs.
- **Appropriate sequencing and timeline**. Design of structural measures should consider the appropriate sequencing and timeline of reform measures, as well as the economic cycle, and factor in the fiscal implications. For example, resources derived from the elimination of energy subsidies or tax hikes (notably indirect taxes) should be partly used to strengthen targeted social programs. If a country does not have any social protection programs to channel this social assistance to the vulnerable groups, a Fund-supported program should prioritize their development (with help from IDIs) before embarking on a fiscal adjustment strategy that involves significant distributional implications.
- **Capacity constraints**. The successful implementation of structural measures may require training or redeployment of staff, or hiring additional staff, by the authorities. Structural measures should also take a realistic approach when assessing the time needed for effective implementation.

**78. Early engagement with the country authorities and other stakeholders (e.g., CSOs, academics, think tanks, labor unions, business, and local experts) is important.** It would enrich staff's understanding of country circumstances, help gauge the economic significance of social spending, improve the design of policy advice, increase ownership, and strengthen traction and understanding of IMF policy advice. Early engagement on social spending issues in the contest of Article IV consultations can also help give the authorities time to prepare policies and programs to protect vulnerable groups that can be implemented promptly when needed in the context of fiscal adjustment programs.

[133] For concrete country cases where structural measures and quantitative targets complement each other, see, for example, the forthcoming background note *IMF Engagement on Social Safety Net Issues in Surveillance and Program Work*.

### *Structural Fiscal Reforms*

**79. Fiscal structural reforms should be targeted to support the implementation of high-quality fiscal measures and the delivery of program fiscal objectives.** Critical fiscal measures should also be packaged with appropriately sequenced structural reforms that seek to offset potential social impacts thus buttressing the fiscal consolidation effort (see Section F on Structural Conditionality for more detail)**:**

- **Institutions.** The implementation of high-quality fiscal measures is unlikely to succeed in the absence of strong fiscal institutions, e.g., improvements in tax policy are more likely when accompanied by measures to strengthen tax administration. Well-designed fiscal institutions can promote credibility and sustainability, enhance transparency and controls, provide risk assessment, and ensure the appropriate use of public resources. Program documents should discuss fiscal institutions where relevant and take these into account when designing fiscal policy advice, building on FAD TA.
- **Transparency.** Fiscal transparency can support adjustment by contributing to better and more sustainable policies, and by strengthening accountability. Increased transparency can enhance public understanding of the structure and functions of government, fiscal policy intentions, the soundness of public sector accounts, and fiscal projections. It can also help contain heightened corruption risks where a significant amount of new spending must be deployed quickly, given that speed often weakens controls (see below). The *Fiscal Transparency Handbook* provides guidance on the application of the Fiscal Transparency Code, including through country examples that derive from the *Fiscal Transparency Evaluation*; the latter being the IMF's main diagnostic tool for a comprehensive assessment of country practices against the standards set out under the Code).[134]
- **Fiscal Governance.** Governance plays a critical role in determining the quality of adjustment. Institutional arrangements and practices that foster transparency, enhance public spending efficiency, and improve revenue administration all reduce the risks of leakage of funds. Fiscal governance is also among the state functions most relevant to economic activity included under the enhanced Fund engagement on governance (see below).[135] Specific measures to strengthen fiscal governance (e.g., to strengthen budget execution controls) may also be appropriate where countries are ramping up spending and contingent spending to address urgent needed related to saving lives and livelihoods.[136]
- **Other issues.** Where relevant, programs could include conditionality in areas such as public financial management (PFM), tax policy and revenue administration, natural resource management, and reforms to energy subsidies, pensions, gender issues, and public health

[134] See *Fiscal Transparency Handbook* (IMF, 2018).

[135] See *Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement* (IMF, 2018) and *Review of Implementation of The 2018 Framework for Enhanced Fund Engagement on Governance* (IMF, 2023).

[136] See *Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending* (IMF, 2020)

care.[137] Staff could draw on existing TA and operational guidance on the contribution of fiscal measures in areas aimed to raise growth and employment, and tackle inequality and gender issues (see discussion of structural reforms below).

## G. Debt-Related Conditionality

**Recommendations of 2018 Review of Conditionality and Program Design**

- **Sharpen debt sustainability tools**, including more realistic macroeconomic assumptions and better assessments of debt overhang, to help mitigate any bias in judgment on debt sustainability and ensure more balanced consideration of debt operations, where applicable.
- **Consider SCs on improving governance arrangements for the contracting of debt and ensuring appropriate monitoring of obligations**, including closer scrutiny of contingent liabilities (e.g., SOE liabilities and off-budget guarantees).
- **Review the Fund's Debt Limits Policy**, including examining possible guidance on collateralized debt in Fund programs.

Summing up

While the positive impact of debt restructuring on program outcomes could not be generalized, Directors saw a need to mitigate bias in judgment on debt sustainability and to carefully evaluate, on a case-by-case basis, the costs and benefits of debt operations. Directors also noted various factors at play in programs that experienced a large overshooting of public debt, most of which went off track. They welcomed ongoing efforts to improve debt transparency, strengthen data reporting capacity, and sharpen debt sustainability analysis (DSA) tools. For PRGT-supported programs, enhancing domestic resource mobilization and the quality of investment is also important, which could help strengthen the Fund's catalytic role in mobilizing external concessional financing.

**80. Debt sustainability is a key requirement for Fund lending.** Under the Articles of Agreement, the Fund may only make its general resources available to members to assist them in resolving their BoP problems in a manner that establishes adequate safeguards for their temporary use.[138] As recognized in the GoC, Fund-supported programs are designed to help a member to solve its BoP problems and to restore it to medium-term external viability. Debt sustainability is a key safeguard for Fund lending. It is a prerequisite for medium-term external viability and therefore for the success of the program and for providing safeguards that the Fund will be repaid. A Fund-supported program in the Fund's GRA is designed to restore the member to medium-term external viability and resolve the BoP problem within the program period. On the other hand, the purpose of programs supported by the ECF is to help PRGT-eligible members with *protracted* BoP problems implement their economic programs and make *significant progress* toward a stable and sustainable macroeconomic position.[139]

**81. A clear assessment on debt sustainability is required and essential for program design.** If debt is unsustainable (i.e., the Fund determines that debt sustainability cannot be preserved

[137] For example, see IMF Strategy Toward Mainstreaming Gender (IMF, 2022).

[138] See Article I(v) and Article V, Section 3(a).

[139] Specifically, the policy measures that need to be taken to resolve a member's BoP problem should be undertaken during the program period. Such policies must be implemented in a manner that will lead to a strengthening of the member's BoP before repurchases begin.

through credible and sustainable policy adjustment), the Fund is precluded from providing financing unless steps are taken to address the member's debt problems in a manner that restores sustainability.[140] These steps could themselves restore sustainability (e.g., the provision of new concessional financing or the completion of a debt operation) or, where upfront restoration of sustainability is not feasible, could provide the Fund with the requisite assurances that the member is on track to restore sustainability. Two types of assurances are possible under this latter scenario: (i) where grants or highly concessional financing is sought from donors, assurances can be sought directly from the donors as to the amount and timing of the contribution; or (ii) where the financing involves rescheduling-—a change in contractual terms—-the form of assurances depends on the nature of creditors, whether Paris Club or non-Paris Club official creditors, or private creditors.[141]

**82. However, there is a higher bar for exceptional access (EA) lending.** For GRA EA, public debt must either be sustainable with high probability for the Fund to proceed with approval of an arrangement, or if debt is sustainable but not with high probability under the baseline, the Fund may lend where financing provided by sources other than the Fund during the program period on a scale and terms such that the policies implemented with program support and associated financing, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.[142] Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability.[143] For PRGT EA, enhanced safeguards under the PRGT (which requires additional scrutiny of debt vulnerabilities in high access cases) and policy safeguards for combined high GRA-PRGT exposure (i.e., the PS-HCC framework), detailed discussions on criterion 2 regarding debt sustainability under the PRGT EA, enhanced safeguards under the PRGT and criterion 2 on debt sustainability under the PS-HCC framework are found in Chapter 1 of the 2023 LIC Handbook.

**83. To inform the judgement on debt sustainability, teams should conduct a rigorous assessment using the Fund's established analytical frameworks.** The Fund's approach to debt sustainability analysis (DSA) differentiates between market-access countries (MACs), that typically have significant access to international capital markets, and low-income countries (LICs), which meet their external financings needs mostly through concessional resources. The assessments of public

---

[140] For ECF arrangements under the PRGT, it may not be feasible to fully resolve the protracted BOP problems within the program period. In this context, the existence of post-program financing gaps could be more explicitly recognized with appropriate safeguards. Post-program financing gaps can be justified when the sensitivity analysis confirms that, notwithstanding the gaps, capacity to repay remains adequate (irrespective of a successor arrangement) and debt remains sustainable under realistic financing assumptions, including level of funding on non-concessional terms to close the post-program financing gaps.

[141] Under the exceptional access policy, a higher degree of probability is required for the Fund to proceed with approval of an arrangement in cases of unsustainable debt: the steps taken by the member must render debt sustainable with high probability.

[142] See Decision No. 14064-(08/18), as amended.

[143] See The Fund's Lending Framework and Sovereign Debt — Further Considerations (IMF, 2015).

and external debt sustainability are conducted in the context of both program design and reviews and are performed using standardized templates.

***Sovereign Risk and Debt Sustainability Framework (SRDSF) for Market Access Countries (MACs)***

**84. The MAC SRDSF sets out a conceptual framework for assessing risks of sovereign stress and public debt sustainability.**[144] The framework assesses vulnerability to sovereign stress in surveillance cases to steer the member away from such stress. In Fund-supported programs, which generally take place after stress has already developed, the Sovereign Risk and Debt Sustainability Analysis (SRDSDA) helps determine if the stress can be resolved via adjustment and Fund liquidity support, or if additional measures are needed to deliver medium term debt sustainability. The framework regards public debt as sustainable when the primary balance needed to at least stabilize debt to GDP under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level. Conversely, if no realistic adjustment in the primary balance—i.e., one that is both economically and politically feasible—can bring debt to below such a level, public debt would be considered unsustainable.

**85. In practice, assessing debt sustainability for MACs involves probabilistic judgments about the trajectory of debt and the availability of financing on favorable terms.** In making such an assessment, the SRDSF utilizes (i) a near-term risk logit model, (ii) two medium term tools (a debt fanchart module and a gross financing needs (GFN) module). These tools collectively analyze the following important considerations: (i) estimation of probability of an unsustainable event through the logit model, (ii) debt burden indicators and the uncertainty around the baseline forecast through the fanchart module, and (iii) analysis using the gross financing needs module of liquidity risks, including the size of a country's financing needs over the medium term, financing sources, and risks associated to the debt holder and new financing structures across various creditor groups. The risk indices from each of the three tools are averaged and compared with thresholds (back tested on past predictive performance for unsustainable events) to arrive at a relevant sustainability mechanical signal (unsustainable, sustainable but not with high probability, or sustainable with high probability).[145] The final sustainability assessment can then incorporate appropriate judgment.

**86. A SRDSA should be prepared at least once a year for program countries (and at each review for EA cases).** For surveillance cases, the SRDSA is a critical input to the Article IV consultation and the SRDSA should be included in the corresponding PNs and SRs. Thus, the SRDSA would be updated at roughly an annual frequency. All requests for IMF financing must be accompanied by an SRDSA. Thereafter, for normal-access Fund arrangements, a SRDSA should be

---

[144] The Sovereign Risk and Debt Sustainability Framework for Market Access Countries (SRDSF), approved by the IMF board in January 2021, replaces the older MAC DSA framework. The output of the framework is the Sovereign Risk and Debt Sustainability Analysis (SRDSA). See SRDSF Staff Guidance Note (IMF, 2022).

[145] For more details, see the Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries (IMF, 2022).

included annually, unless major changes to a country's circumstances/outlook warrant an updated assessment because the most recent one is no longer informative for assessing debt as sustainable. When a program review is combined with an Article IV consultation, an updated SRDSA should be included regardless of the last SRDSA's date. In programs that involve exceptional access, the SRDSA needs to be updated at every program review, in order to verify compliance with the EA criteria.

**87. Early engagement between area departments and SPR is required to identify risks and design alternative scenarios.** For program countries, consultation should start as early as possible. This allows reviewing departments (SPR in particular) to provide early input and facilitate convergence of views on the assumptions underlying the DSA and the interpretation of its results.

**88. Staff should discuss the results of the DSA with the authorities.** The staff report write-up should highlight the authorities' views, particularly when those differ from staff. These discussions with authorities must be done in a way that preserves the independence of staff's analysis. Issues related to the market sensitivity of the analysis and its disclosure are addressed in the context of the Fund's transparency policy.

***Debt Sustainability Framework for Low-Income Countries (LIC-DSF)***

**89. The LIC-DSF is used for all PRGT-eligible countries that also have access to IDA resources and all countries that are eligible for IDA grants.[146]** For such countries, external financing remains largely concessional and the present value (PV) of debt plays a key role in understanding debt-related vulnerabilities, making the LIC DSF more suitable for analysis than the SRDSA framework which is used for emerging markets and advanced economies. IDA uses the LIC DSF to determine grant provisioning within a country's IDA resource allocation, while other MDBs use it to inform their lending policies to LIC countries.

**90. The DSF toolkit requires three key inputs.** First, comprehensive information on the current stock of public and publicly guaranteed debt must be compiled and a decision must be taken about the concept of the public sector to be used. Second, macroeconomic projections covering 20 years must be produced as well as historical data for the previous 10 years. Projections should be informed by a careful assessment of the outputs of the DSF's realism tools and where excessive optimism or pessimism is flagged, revisions to baseline macroeconomic projections should be considered. Third, financing projections for external and public debt covering the projection period must also be produced.

**91. Once macroeconomic and financing projections have been finalized and the realism of the macroeconomic framework has been suitably vetted, a country's debt carrying capacity needs to be established.** This determines the debt and debt service thresholds that will apply when

[146] PRGT-eligible countries are eligible to use the SRDSF when they (i) have graduated from being IDA-only, and (ii) demonstrate substantial and durable market access based on one of the tests for the purposes of assessing eligibility to use the Fund's concessional resources. See SRDSF Staff Guidance Note (IMF, 2022).

assessing the risk of debt distress. Countries' debt carrying capacity are classified based on a composite indicator which uses country-specific information.

**92. Stress tests gauge the sensitivity of projected debt burden indicators to changes in assumptions.** The DSF template automatically applies a series of stress tests to examine the impact of temporary shocks on the evolution of external and overall public debt burden indicators in the DSF. There are three types of stress tests: standardized, tailored, and fully customized scenarios. The comparison between debt burden indicators and thresholds in the DSF leads to mechanical signals about the risk of debt distress.

**93. The DSF presentation should contain a written analysis and a standard set of tables and charts, including**:

- A clear and concise description of the definition of public debt used;
- Key macroeconomic and financing assumptions, identifying key risks and vulnerabilities;
- The design and outputs of DSF stress tests;
- Signals from the framework and other judgmental factors to assign a final risk rating; and,
- The authorities' views, including any disagreement with staff's main findings.

**94. A full LIC DSA should generally be produced at least once every calendar year,** and more frequently if there is a request for IMF financing or a proposed modification of PC or request for a waiver for non-observance of a PC related to debt limits or there are significant changes in the economic circumstances. If more than one DSA is required in a calendar year and circumstances have not changed significantly then staff can jointly prepare a streamlined update focused on the main changes in assumptions and their impact on debt indicators. The streamlined approach does not apply in the event of a new program, however. All LIC-DSAs (full and updated) should be produced jointly by IMF and World Bank staff, and staff are encouraged to reach early agreement with the Bank on appropriate timelines for document review and clearance.[147]

***Coverage***

**95. Both SRDSAs and LIC DSAs should be conducted based on gross debt, as this measures the burden of financing of debt service obligations for which the government is responsible**. The availability of liquid financial assets mitigates, but may not eliminate, risks to debt sustainability. As such, while net debt may be considered as an extenuating factor, it should not substitute for the assessment of gross debt.

[147] For further information, please consult the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (IMF, 2018).

***Market Access Countries***

**96. The default institutional perimeter for gross public debt in the SRDSF is the general government (GG), and narrower or more consolidated coverage may be appropriate in some cases.** In a limited set of market-access countries, narrower than GG coverage may be appropriate. For these cases, the central government (CG), or other similar definition serves, *de facto*, as the general government due to the lack of units beyond the central administration. Examples include small island states, or highly centralized economies where no significant subnational governments exist, and where social security is part of the central government. Apart from those cases, SRDSAs prepared with a narrower perimeter than the GG should focus on the risk of debt surprises and efforts to broaden coverage. SRDSA coverage may be broader than the GG if the broader definition anchors fiscal policy discussions or if there is a conceptual argument for doing so. This could include the necessity to fully capture sovereign risks and potential mitigants from outside the GG, including but not limited to issues of nonfinancial public corporations and central bank consolidation.[148]

***Low-Income Countries***

**97. Debt projections should use the broadest possible coverage of public debt.** The materialization of contingent liabilities and off-budget guarantees have tended to be a significant factor in large debt projection errors in PRGT-supported programs. DSAs should endeavor to provide the most comprehensive accounting of gross debt possible, including, where known, unfunded liabilities, long-term obligations, and anticipated contingent liabilities. Large unexplained residuals in projections could be minimized by accounting for cross exchange-rate valuation effects for debt denominated in multiple foreign currencies, factoring domestic FX regimes. As such, DSAs should cover all public and publicly guaranteed external and domestic debt. Public and publicly guaranteed debt would include: (i) the public sector, defined as central, state, and local governments, social security funds and extra budgetary funds, the central bank, and public enterprises; and (ii) private sector debt guaranteed by the public sector. Any known gaps in data coverage should be flagged.

**98. Staff should endeavor to include in the DSA all available information on the debt of non-financial public enterprises.** The LIC-DSF allows for exclusion of a public enterprise from the DSA if staff assesses that the enterprise poses limited fiscal risk, i.e., it is able to borrow without a guarantee from the government, does not carry out uncompensated quasi-fiscal activities, and has an established track record of positive operating balances. Staff should provide a justification for omitting any fiscally important public enterprise. For a public enterprise that can borrow externally without a guarantee from its sovereign, exclusion from DSA is not automatic and should be assessed against the fiscal risks posed, if any (e.g., see Ethiopia DSA (January 2020)). If data constraints limit coverage of SOE debt, the DSA needs to flag this as an omission and identify steps to enhance the coverage of SOE debt in the next DSA.

[148] For further information, please consult Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries (IMF, 2022, Section III).

### *Debt Limits Policy*[149]

**99. Debt limits are used to supplement fiscal conditionality**. Typically, the volume of new public debt is the mirror image of financing needs as determined by public sector fiscal balances. However, fiscal limits may not adequately constrain new debt accumulation, either because the fiscal data do not cover the operations of the entire public sector, or because they do not capture below-the-line debt-creating financial transactions. Concerns about the profile of public financing – e.g., concessionality, maturity, and currency composition – may also not be adequately addressed in fiscal conditionality. In such cases, program conditionality may include debt limits as a complement to fiscal conditionality. Debt limits would usually be set on a contracting basis and cover both public and publicly guaranteed debt.

**100. For countries using the SRDSA, debt limits are set if vulnerabilities are not adequately addressed by fiscal conditionality**. In cases where risks are stemming from contingent liabilities (and broadening fiscal coverage is not deemed feasible within the program horizon), fiscal conditionality may be augmented with limits on the issuance of new government guarantees, borrowing by SOEs, or on the contracting of PPPs.[150] If needed, borrowing limits should be typically of the nominal type, since these countries are generally not able to borrow on concessional terms.

**101. For countries using the LIC DSA, debt vulnerabilities will be informed by the risk of external debt distress or, where relevant, the overall risk of debt distress**. Typically, a moderate or high risk of external debt distress would indicate the presence of significant debt vulnerabilities. However, the assessment will also take into consideration the rate of accumulation of external debt as well as risks to debt sustainability arising from liquidity pressures due to high levels of public domestic debt and/or private external debt.

**102. Design of debt conditionality for LICs should reflect the nature and extent of debt vulnerabilities identified in the LIC-DSF, while taking into account the country's financing conditions.** For LICs, that normally rely on concessional financing with no significant access to international financial markets, debt limits would normally be applied to public and publicly-guaranteed external debt based on the following guidelines:

- Programs in countries at **low risk** of external debt distress would normally not need limits on public external borrowing, unless specific debt vulnerabilities warrant targeted conditionality;
- Program conditionality for countries facing a **moderate risk** of external debt distress would include a PC on external borrowing specified in present value (PV) terms.
- For countries at **high risk** of external debt distress or **in distress**, a zero non-concessional external borrowing (NCB) limit is required. Exceptions to the zero NCB limit can be considered

[149] For further information, please consult Reform of the Policy on Public Debt Limits in IMF-supported programs (IMF, 2020), and Guidance Note on Implementing The Debt Limits Policy In Fund Supported Programs (IMF, 2021).

[150] Please consult Guidance Note on Implementing the Debt Limits Policy in Fund-Supported Programs (IMF, 2021, page 34).

only under exceptional circumstances, such as for debt management operations that improve the overall debt profile or for critical projects. A limit on the accumulation of concessional external debt would also be specified, either in the form of a PC or IT.

**103. For countries that normally rely on concessional financing but with significant access to international financial markets, no debt conditionality is required if the country is at low risk of external debt distress.** However, for countries in this group with a moderate risk, high risk, or in external debt distress, debt conditionality would need to account for these countries' specific financing circumstances. Generally, the conditionality should take the form of a PC on the PV of external borrowing. Taking into account their specific financing circumstances, alternative approaches should be utilized to better target vulnerabilities when necessary.

**104. For countries with weak capacity to record or monitor debt,** debt limits should be set on the basis of contracting of new loans rather than disbursements, accompanied by the provision of relevant capacity development. In countries with a relatively open capital account and significant financial integration, it may be appropriate to set limits on total public debt rather than externally issued debt.

**105. Information on country's creditor composition can help strengthen program design, including debt conditionality**. The debt holder profile table provides information on a country's reliance on international financial markets, domestic and foreign banks, as well as bilateral, plurilateral, and multilateral creditors. Such information is needed to better assess the extent and nature of debt vulnerabilities, such as rollover risks, and therefore would help enhance both the focus and calibration of debt conditionality. Program documents for all IMF arrangements include a Debt Holder's Profile table with granular information on public debt and debt service composition by creditors and instruments. Key components include, debt stock, creditor composition, debt service, collateralized debt, and domestic debt.

***Debt-Related Structural Conditions***

**106. In addition to debt limits, teams should consider structural conditions aimed at improving the governance for the contracting and monitoring of public debt**. Where the contracting and monitoring of public debt is a concern for the delivery of program objectives, programs could include structural measures aimed at improving debt-related governance and capacity. Common program measures include developing or strengthening a debt management strategy, or institutional structures, for example, a debt management office or unit. Structural measures could also focus on increasing transparency, for example, by requiring declarations of any guaranteed public debt, or establishing monitoring mechanisms/frameworks for SOEs. Measures targeting stronger controls and accountability could also be considered, for example, by stipulating that all new borrowing be approved by a government minister or by a national public debt committee. Please see Section 3(b) of the Guidance Note on Implementing the Debt Limits Policy in Fund-supported Programs for further discussion of steps to improve debt information if needed, including the potential use of prior actions, structural benchmarks, and capacity development.

***Debt Operations***

**107. The academic literature provides an extensive overview on both the pros and cons of debt operations.** In high-debt vulnerability cases, the 2018 RoC found that debt operations tend to be associated with greater program success, albeit mainly in small and non-systemic countries. Nevertheless, there has been a general reluctance to recognize that debt may not have been sustainable. The pros and cons of public debt operations have been well documented in the literature.[151] On the one hand, debt operations provide immediate debt service relief and curtail the debt-stabilizing primary balance, which reduces the required fiscal adjustment. This, in turn, can minimize the negative impact on growth and facilitate a recovery of competitiveness (especially where debt ratios are sensitive to the real effective exchange rate). On the other hand, debt operations result in loss (at least temporarily) of market access and higher risk premiums once market access is regained. They can also weaken balance sheets of the domestic financial system and generate spillovers to other countries. The extent of the pros and cons depends on the type of debt operation in question: restructuring (a reduction in the nominal value of the principal) tends to have larger potential implications than reprofiling (e.g., an extension of maturity). Ultimately, restructuring or reprofiling to improve debt sustainability requires distributing the burden of adjustment among various stakeholders in a way that best preserves or restores financial stability and economic growth.

**108. Prompt detection and resolution of debt sustainability concerns is in a country's interest.** A growing literature suggests that the timely implementation of debt operations can be more beneficial than the alternative of (unrealistically) large fiscal adjustments.[152] Delays often increase the risk of economic dislocation and subdued economic growth; prolong financial instability (including potential spillover to the international monetary system in some cases); accentuate moral hazard problems; and complicate burden sharing if official claims replace private claims (IMF, 2019).

**109. Whether and how to restructure debt are sovereign decisions and staff needs to avoid advising the country to restructure or micromanaging the process; staff's role should focus on defining the envelope of the needed debt operation to restore debt sustainability**. As a general policy matter, the Fund advises country authorities to remain current on all debt to the extent possible and to hire legal and financial advisors, preferably pre-emptively (i.e., prior to default), leaving any decision to restructure to the sovereign.[153] If the authorities take the decision to restructure their debt in the context of IMF financial support, the Fund's role is to determine the overall envelope of relief needed for debt sustainability, which defines the targets for the debt restructuring.[154] It is up to the debtors and creditors themselves to determine the scope of debt to be restructured, burden sharing, and the design of the restructured instruments in a way that

[151] See Sturzenegger and Zettelmeyer (2006).

[152] See Guzman, Ocampo, and Stiglitz (editors) (2016).

[153] Fund staff needs to bear in mind that the Fund – and staff – could be named as defendants in legal action were it to advise a member to default on its obligations. The legal basis for such an action would be "tortious interference with performance of contract".

[154] For further information, please consult Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries (IMF, 2022, Paragraph 151).

restores debt sustainability based on the envelope the Fund defines. When conditions warrant, and with consent of the debtor, the Fund may provide creditors with key information that might include a macroeconomic framework, financial developments and prospects, and main elements of program design.[155] Staff should also advise the authorities to pursue a collaborative dialogue with creditors, urging them to consult with their own legal and financial advisors regarding the design and implementation of a consensual debt restructuring strategy. Past restructuring experience suggests that proactive creditor engagement and a clear communication strategy are key to achieving an orderly restructuring with high creditor participation. The lending into sovereign arrears policies (see IMF 2022) provides private creditors with an important incentive to participate in the restructuring as, in the event of a default, the Fund would be in a position to continue to provide support if the conditions of the policy are satisfied.

**110. If debt is assessed to be unsustainable *ex ante*, the Fund can only lend if it has adequate assurances that debt sustainability will be restored**. If financing other than from the Fund, together with politically and economically feasible adjustment is not sufficient to restore sustainability, a debt operation could be needed. The operation should preferably be completed before Fund approval of financing, including emergency financing requests, such that staff can be sufficiently confident that, with implementation of the authorities' plans, debt will become sustainable in a forward-looking sense. However, there may be circumstances in which Fund financing can proceed prior to the completion of the restructuring.[156]

- In cases of unsustainable debt, the standard of "specific and credible assurances" on debt relief/financing is what the Fund has consistently required from official bilateral creditors before approval of Fund financing. For Paris Club bilateral creditors, such assurances on debt relief and/or financing generally take the form of a preliminary indication that the Paris Club is willing to provide debt relief in anticipation of an Agreed Minute, while under the recent G20 Common Framework these assurances are expected to be provided by a committee of creditors participating in a debt operation (Creditor Committee) that will be followed up by a memorandum of understanding with the debtor country. Under the G20 Common Framework (same is the case for any Paris Club restructuring), a comparability of treatment principle for other official and non-official lenders is expected to be applicable in debt operations (e.g., Chad 2021, Zambia 2022).[157] For other cases outside of the above two mechanisms, but involving bilateral official creditors, written assurances are expected from a sufficiently high-ranking official authorized under domestic law to commit the creditor, which should show an understanding of the debtor country's situation and the needed actions to restore debt sustainability.
- For restructurings of privately held debt, circumstances particular to each case determine how much progress on the restructuring will allow staff to assess that a credible process is underway

[155] See Staff Guidance Note on Information Sharing in the Context of Sovereign Debt Restructurings (IMF, 2023).

[156] The general practice has been that a member should complete (or be close to completing) the debt operation by the time of the first review. For augmentation or rephasing, debt operations should be undertaken as soon as feasible to ensure return to sustainability within the program period.

[157] See IMF Country Report No. 21/267 (December 2021) and Country Report No. 2022/292 (September 2022).

and will result in sufficient creditor participation to restore debt sustainability and close financing gaps. That assessment can be informed by discussions with the financial and legal advisors and should be based on the totality of circumstances.

- In post-default debt operations, staff should consult with SPR and LEG on implications of arrears for Fund lending policies which apply to all Fund lending, including in emergency financing.

**111. While staff always advise members to remain current on their financial obligations, and regardless of the sustainability assessment, a member may choose to consider or undertake a debt operation.** For example, situations may arise where debt sustainability assessment is subject to heightened uncertainty, including on the likelihood of additional financing that could help ensure sustainability and the feasibility of the needed adjustment. In such cases, the debt operation the authorities choose to undertake may help to strengthen the assessment of sustainability. The authorities may also choose to perform voluntary and market-based liability management operations, which are different from debt restructuring and do not necessarily imply a lack of sustainability. A timely execution of such operations would allow improving debt profile and building buffers to meet payment obligations, strengthening debt sustainability. SRDSF tools are already used to inform the restructuring envelope, including an appropriate GFN profile. Similarly, the LIC DSF thresholds provide guidance on the envelope consistent with achieving a moderate risk of debt distress. The authorities' decisions may have implications for the program and would need to be assessed.

***Collateralized Debt***

**112. Collateralized borrowing arrangements can impact Fund program design and conditionality.** Collateralized borrowing is a form of debt or loan where an asset or a revenue stream is pledged as a guarantee for the repayment of principal and interest of the obligation. A collateralized future receipts (CFR) arrangement, typically involves creating a security (a lien, pledge, charge, assignment, etc.) over a specified flow of future receipts or revenues. This security is then used as collateral to secure liabilities (principal and/or interest) owed to a creditor, giving them the right to collect upon such asset in the event of default. CFR arrangements can raise concerns because they can (i) reduce policy flexibility in responding to shocks; (ii) undermine the country's capacity to repay; (iii) create problems in catalyzing World Bank and regional development bank participation (since their non-concessional lending is subject to a Negative Pledge Clause (NPC)[158]); and (iv) violate NPCs in existing bond contracts and loan agreements.

**113. The use of CFR arrangements in Fund-supported programs needs to be evaluated in each case individually.** The Fund's legal framework does not preclude member countries from entering such arrangements. In program cases, staff should assess whether CFR arrangements are appropriate based on the following criteria: (i) the nature of the collateral income stream used to service debt; (ii) their implications for the member country's CtR the Fund; (iii) their implications for

[158] The World Bank's (IBRD and IDA) non-concessional lending is subject to a Negative Pledge Clause (NPC), and IDA is currently considering extending the NPC to concessional lending as well.

ensuring that the program under consideration is fully financed, which in turn is related to the ability of the member country to find alternative sources of non-collateralized financing in the relevant timeframe; and (iv) their implication for burden sharing with other IFIs and RDB, as well as private creditors.[159]

## H. Financial Sector Conditionality

**Recommendations of 2018 Review of Conditionality and Program Design**

- **Consider NPL resolution and related conditionality at the outset**, where appropriate, recognizing the tradeoff between the speed of NPL resolution and economic outcomes, the complexity of the process, and the time needed to successfully complete reforms.

Summing up

A number of Directors called on the Fund to continue building expertise in shared areas of responsibility such as labor, product, and financial market reforms, which are key to competitiveness and private-sector-led growth.

**114. Financial sector conditionality in IMF-supported programs should vary depending on the financial stability challenges.** In cases where countries are in (or on the verge of) a banking crisis, conditionality should focus on crisis management, with urgent measures to stabilize and restructure the banking system. Given the high cost of banking crises[160] conditionality should aim to ensure that insolvent and undercapitalized banks are recapitalized or resolved before the end of the program. Strengthening the bank resolution framework upfront is a precondition to this restructuring occurring in an orderly fashion. In addition, strengthening financial supervision and regulation as well as the financial safety net would enhance financial sector resilience going forward. Banks can be also affected by other program measures, for instance, fiscal adjustment or sovereign debt restructuring. Program measures for the financial sector can be drawn from Article IV consultations, FSAPs, TA or lessons from past programs.[161] In programs focused on more structural problems, longer-term improvements in regulation and supervision could be the objective. Conditionality in Fund-supported programs for LICs may also focus on building financial stability infrastructure to promote financial deepening and inclusion, without creating risks to financial

[159] For further background see Collateralized Transactions: Key Considerations for Public Lenders and Borrowers (IMF, February 19, 2020). Please also consult the Guidance Note on Implementing the Debt Limits Policy in Fund-supported Programs (IMF, 2021) for more information on addressing data gaps related to collateralized debt. A forthcoming IMF/World Bank note on Collateralized Transactions: Recent Developments and Policy Considerations updates the 2020 guidance and points to several examples of the treatment of collateralized transactions under Fund-supported programs.

[160] Laeven and Valencia (2018).

[161] While a detailed discussion of financial sector conditionality during the pandemic is beyond the scope of the chapter, the IMF has produced a special series on COVID-19, including the financial sector, with topics such as unwinding policy interventions in banking systems, regulatory reporting and supervisory analysis, supervisory priorities, macroprudential policy relaxation, restriction of banks' capital distribution, policies in the securities market and the insurance sector, pandemic preparedness for banks, or public communication during a financial crisis.

stability. Therefore, the primary focus of structural conditionality (SCs) is often on banking legislation to strengthen the regulatory, resolution, and anti-money laundering frameworks, supported by TA to build capacity.

***Asset Quality Reviews (AQRs), Stress Testing, Bank Restructuring and Resolution***

**115. In cases where there are acute and systemic banking problems, staff should embed a comprehensive crisis management strategy at the outset**.[162,163] In such situations, the objective is to reduce uncertainty, regain market confidence, and minimize spillovers. Programs should therefore focus on ensuring that banks have sufficient liquidity and capital, as well as developing and implementing a comprehensive strategy to resolve distressed entities. Conditionality should seek to ensure that all insolvent or undercapitalized banks are restructured or resolved by the end of the program. Depending on the severity of the banking problems, an effective crisis management strategy, should, *inter alia*, include an AQR[164] and stress tests to identify bank capital needs, time-bound restructuring plans for undercapitalized banks and, if necessary, public solvency support to banks that are unable to raise private capital. Nonetheless, AQRs are not an end in themselves but rather require development of plans, including resolution and restructuring plans, to address issues identified during the exercise. Staff should closely follow IMF best practice on crisis management (Dobler, Moretti, and Piris Chavarri, 2020), which summarizes IMF advice in actual crisis situations. This guidance includes advice on *crisis containment,* where teams should develop strategies and techniques to stem creditor runs and stabilize financial sector liquidity over the acute phase of panic and high uncertainty. It also outlines *restructuring and resolution*, whereupon program design should include strategies to diagnose bank soundness and viability, recapitalize and resolve failing institutions, and deal with *NPLs*.[165] Precise financial sector program measures will need to be tailored

[162] The IMF has acquired an extensive experience in addressing banking crises in advanced and emerging market economies. For instance, see Hoelscher and Quintyn (2003) on managing systemic banking crises, SDN/11/05 on early lessons from the financial crisis, Laeven and Valencia (2018) with their seminal database on systemic banking crises, or Dobler, Moretti and Piris Chavarri (2020) on Managing Systemic Banking Crises- New Lessons and Lessons Relearnt. In addition, MCM Policy Position Notes examined individual aspects of banking crisis related topics.

[163] It bears reminding that distressed systemic banks can portend spillovers/externalities to other countries, especially if the banks are also present abroad. For further reading, please see the “too big to fail” literature (Zamil, 2009, Laeven et al. 2014, among others)

[164] An AQR, which applies a uniform and rigorous set of valuation criteria to all banks, through a centralized process that values assets and liabilities to identify losses and recapitalization needs in each institution. Participation of external parties (for example, an international audit firm) or application of new valuation standard (such as International Financial Reporting Standards (IFRS), or more robust loan classification and provisioning rules) can help bolster confidence in cases where weak bank supervision and local auditing practices have been a factor contributing to financial vulnerabilities. AQRs can also offer insights into other elements that underpin the viability of financial institutions, such as instances of weak risk management controls or hidden liabilities. AQRs are generally time consuming to complete, and the high costs involved make it difficult to justify outside crisis situations. For more guidance see Dobler, Moretti and Piris (2020) for more details.

[165] The 2019 Financial Soundness Indicators Compilation Guide (IMF, 2019) defines NPLs as “Loans for which (1) payments of interest or principal are past due by 90 days or more; or (2) interest payments equal to 90 days or more have been capitalized or delayed by agreement; or (3) evidence exists to reclassify a loan as nonperforming even in the absence of a 90-day past due payment, such as when the debtor files for bankruptcy.”

to country-specific circumstances (as in other program areas), for instance, considering the institutional capacity of the authorities and the severity of the crisis.

**116. AQRs and stress tests are key diagnostic tools to assess capital adequacy in situations of systemic distress**:

- **Comprehensive AQRs are critical when banking sector distress becomes systemic.** Staff should ensure that an AQR under a program is delivered by independent, international experts, applying a uniform and rigorous set of valuation criteria to the banks covered by the exercise, provides for adequate financial backstops, and is seen as credible by market participants.[166] Fund-supported programs for Euro-area countries (e.g., Cyprus, Greece, Ireland, and Portugal) all included AQRs and stress tests (both at national and EU level), which were considered precursors to the eventual bank restructuring and private debt resolution actions with a view to preserving the solvency and viability of the financial system. Other programs have included AQRs without stress tests.
- **Stress testing has become an essential and prominent tool in the analysis of financial-sector stability (including in programs), but in itself can have only a limited impact unless it is tied to action.** Crisis stress testing in IMF-supported programs can help to form a forward-looking view of banks' resilience under baseline and adverse economic scenarios (e.g. Ong and Pazarbasioglu, 2013).[167] Stress tests should be comprehensive in capturing all systemic and distressed institutions, differentiate the soundness of banks as part of a triage analysis (i.e., viable; viable but undercapitalized; or non-viable), and identify capital needs and fiscal costs as well as resolution plans.

**117. While public solvency support may be needed in exceptional circumstances, it should be provided only under strict conditions that maximize burden sharing, minimize moral hazard, and protect taxpayers.** Importantly, public resources to recapitalize private banks should be a last-resort measure (Dobler, Moretti and Piris Chavarri, 2020). They should only be used when financial stability is threatened, come after loss absorption by bank owners, be accompanied by time-bound restructuring plans and other conditions.[168] A transparent, strong, and assertive supervision of recapitalized banks helps ensure timely implementation of the restructuring plan and facilitate their re-privatization. Staff should be cognizant of program risks related to the bank-sovereign nexus (e.g., IMF, 2014 and 2018), as large-scale public recapitalization costs might endanger public debt sustainability due to limited (or lack of) fiscal space and could deepen the adverse bank-sovereign feedback loop.[169]

---

[166] See e.g., MCM Policy Position Notes.

[167] Crisis stress tests are different from supervisory stress tests, which are regularly conducted by supervisors and e.g., usually do not contain the same level of transparency as crisis stress tests.

[168] See p.32 of Dell'Ariccia et al 2018.

[169] At the same time, sovereign stress can affect domestic banks through direct exposure to the sovereign and indirectly given the sovereign's role as backstop to the financial system. If banks suffer mark-to-market losses on their

(continued)

**118. Where public funds are required to recapitalize banks, IMF-supported programs should factor in adequate fiscal resources from the outset** (e.g., Cyprus, Greece, Ireland, Jamaica, or Ukraine).[170] It would be also important for programs to link the fiscal costs of recapitalizing banks to a realistic macroeconomic framework, explaining how the baseline sees NPL disposals, and credit intermediation. The DSA baseline debt should include bank recapitalization needs where these are both material and represent the likely outcome, as higher than envisaged bank recapitalization costs have contributed to debt surprises in some IMF-supported programs (IMF CPR, 2015).

***NPL Reduction Strategies***

**119. Any NPL reduction strategy should take into consideration that the impact of shocks on banks' asset quality is usually felt with a lag.** The typical NPL cycle exceeds the duration of a Fund-supported program, as the experience from Fund-supported programs in Euro-area countries illustrates.[171] A key reason is that economic shocks are not immediately passed through to NPLs, as borrowers may initially be able to make loan repayments, or bank managers may forebear on missed repayments at times of financial stress. In addition, overoptimistic macroeconomic and asset recovery forecasts lead to an underestimation of the NPL problem with adverse feedback loops (e.g., Carrière-Swallow and Marzluf, 2021). While stabilizing the banking system (see above) is a prerequisite for NPL resolution, a structural NPL overhang will likely take longer to address.

**120. Enforcing prudent and sound NPL classification and provisioning standards is crucial to addressing high and rising NPLs**. Banking crises are often characterized by a sudden loss of trust between banks, market participants and depositors. Past crisis experience shows that transparency is a precondition for maintaining or regaining trust in the system. Accurate and reliable information (amount of NPLs, potential losses, capital shortfalls) is essential for managing risks in the balance sheet over short and long terms and for public authorities to formulate the most appropriate policy responses. Lax loan classification and provisioning rules would adversely impact transparency and data reliability, as financial statements and prudential ratios would not adequately reflect the truth. Without reliable information, the market, the public and the authorities cannot distinguish weak banks from sound banks, which could lead to a wider loss of confidence in the entire banking system, with adverse implications for stability. It is crucial to establish the origin of the majority of NPLs. In some cases, NPLs have originated from public banks and/or government-supported sectors,

holdings of government bonds, they could become undercapitalized. Concerns about the health of such banks could lead to deposit runs, spilling over to otherwise healthy banks. Exchange rate depreciation associated with worsening market sentiment could also exacerbate bank FX funding costs and expose unhedged FX borrowers.

[170] For instance, in the Greece program (2012 EFF), €50 billion was earmarked for bank recapitalization costs, with half allocated to the expected private sector involvement-related losses and the rest to resolve problem banks and deal with existing and future credit losses.

[171] Cyprus, Greece, Ireland, and Portugal saw NPLs rise by an average of 10½ percentage points during their programs, despite all having financial stability as one of the program priorities. NPLs started declining only after the end of the program for Ireland and Portugal but remained elevated for Cyprus and Greece, holding back the resumption of credit growth. Experience from these countries reflects the challenge of reducing NPLs within the program period. See also IMF CPR (2015) for a broader discussion.

which may require a different strategy e.g., addressing problems in the state-owned enterprise sector.

**121. Any program policy action on NPLs should be preceded by a detailed diagnosis of the factors that hinder NPL resolution**. IMF-supported programs can be useful in identifying and adequately classifying NPLs (alongside FSAPs), and program conditionality can be introduced based on this assessment (e.g., Ireland). Approaches to tackle high NPLs have varied across countries and economic environments, including advanced, emerging and low-income countries.[172] A thorough assessment of economic, data, legal, prudential, market, and policy obstacles should be undertaken as part of program conditionalities to identify the policy priorities to deal with a NPL overhang.[173]

**122. Strategies to resolve NPLs require complex reforms that take time to design, legislate, and implement**. While rapid progress in NPL resolution is often challenging, program experience (see IMF CPR, 2015) suggests the best prospects are provided by action on several fronts. Program priorities could include: (i) early emphasis on addressing legal obstacles and enhancing insolvency and debt enforcement frameworks, including by establishing options for out-of-court and hybrid restructuring; (ii) measures to enhance prudential supervision to incentivize banks to write off or restructure debts, such as through operational targets for NPL workout (as under the Cyprus program) or time limits on NPL write-offs;[174] and (iii) establishment of markets to handle distressed debt, and improving data transparency on NPLs. Asset management companies (AMCs) may also be established in this context, subject to a careful cost benefit analysis (see below). The long cycle and complexity of NPL reduction should be also reflected in how conditionality relating to NPLs in a Fund-supported program is crafted: measures should be, *inter alia*, concrete, and allow for a reasonable timeline for diagnosis, design, legislation, and implementation.

**123. Where insolvency frameworks are ineffective in supporting NPL resolution, staff should approach reform of the insolvency and debt enforcement frameworks from multiple angles.** This could include, *inter alia*, introducing hybrid restructuring frameworks, simplifying insolvency procedures, and increasing their functionality to allow for the reorganization of viable businesses and a speedy liquidation of non-viable businesses. Reforms should be consistent with the international standard on insolvency and creditor rights.[175, 176] In addition, efficient out-of-court workouts should be promoted, while insolvency reforms should be complemented by improving the legal capacity and institutional setup (e.g., establishing specialized courts and regulating insolvency professionals). In real estate crises with high mortgage NPLs, mortgage debt resolution policies in programs might need to be adapted to avoid a vicious cycle that culminates in higher mortgage

[172] For instance, Bunda, Eyraud and Wang (2021) assess the benefits of NPL disposal in Sub-Saharan Africa during the pandemic within a simple analytical framework.

[173] See e.g. IMF SDN/15/19, IMF SDN/15/04 or MCM Policy Position Notes

[174] In addition, tax obstacles to NPL resolution should be also removed, where important (e.g., Romania program).

[175] MCM Policy Position Notes, IMF (1999), Liu, Garrido and DeLong (2020), as well as Araujo et al (2022).

[176] The standard is composed of the recommendations from the UNCITRAL Legislative Guide on Insolvency Law and the World Bank Principles on Insolvency and Creditor Rights.

defaults and a deeper recession.[177] Staff should keep in mind that such insolvency and creditor rights reforms crucially depend on country-specific refinements to create incentives for creditors and borrowers to restructure loans. Political opposition to these reforms often slows down legislation, while weaknesses in the court system and other parts of the institutional framework might delay the effective implementation of insolvency and creditor rights reforms.[178]

**124. While a detailed discussion of corporate support and debt restructuring goes beyond this chapter, Araujo et al (2022) discussed policy options for supporting and restructuring firms that were especially hit by the COVID-19 crisis.** Their broad policy elements include the following: *First*, policy support schemes require clear objectives as to what market failures are meant to be addressed. *Second*, policy support schemes should include strong governance and transparency safeguards to mitigate risks and put in place clear *ex ante* exit plans.[179] *Third*, countries wherein fiscal space is depleted, and insolvency systems are ineffective should rely more on out-of-court and hybrid restructuring approaches, while embarking on deeper medium-term reforms of legal and institutional frameworks (as discussed above). *Fourth*, countries with insufficient policy tools or ineffective legal and institutional frameworks to restructure, reorganize, and liquidate firms should urgently address these shortcomings. *Fifth*, all countries can improve their crisis preparedness, but priorities differ across them.[180]

**125. AMCs are not a panacea for NPL problems and can involve large fiscal costs as well as face several important operational challenges.** AMCs have been used in past banking crises to facilitate and speed up NPL restructuring and have been subject to several studies.[181] In general, the objective of an AMC scheme is to lower systemic risk from high NPL levels by having banks transfer them from their balance sheets. The operational case for AMCs typically lies in the fact that AMCs pool scarce NPL workout knowledge to achieve higher efficiency in preparing, bundling, resolving and selling NPLs. While there is no single optimal design for AMCs, operational independence,

---

[177] Andritzky (2014) examines the resolution of residential mortgage distress based on housing crises in some advanced economies.

[178] For example, in the Ireland program, legal and political constraints took time to resolve. The Greece program also faced such challenges.

[179] Burden sharing and debt-restructuring schemes that make use of the informational advantage and skills of private creditors can be particularly advantageous. Public creditors should actively participate in debt restructuring.

[180] Advanced economies tend to have well developed insolvency systems and strong institutional frameworks, but there are still areas where improvements are warranted, such as simplifying liquidation procedures; improving technical aspects of their reorganization proceedings, including for small firms; making better use of out-of-court restructuring; continue using modern technology in insolvency proceedings; and creating a legal environment more conducive to restructuring. In emerging market economies, there have been improvements in insolvency legislation in recent years, but there is space to strengthen the court system and the regulation of insolvency administrators. Furthermore, most emerging market economies could also introduce or improve hybrid restructuring techniques. Low-income countries need improvements in out-of-court and hybrid restructuring to speed up crisis preparedness, while broad legal and institutional reforms are introduced.

[181] AMCs in recent IMF-supported programs included Cyprus or Ireland, while the IMF provided technical assistance in the ESM program for Spain, where the AMC was a cornerstone. Ingves et al (2004) study issues in establishing AMCs, with Jassaud and Hesse (2013) and Medina Cas and Peresa (2016) focusing on the recent EU experience. The EU published a blueprint on the set-up of national AMCs.

appropriately structured incentives, and commercial orientation are considered key design features. Staff should be cognizant that there are several operational challenges in setting up an AMC, such as taking decisions on the eligibility of assets to be transferred to AMCs, the timeline for asset disposal, the pricing of assets and the impact of competition rules, as well as the political appetite. Another consideration is that AMCs may not be well suited for dealing with some asset classes. Efficiency gains from using a centralized AMC materialize, most likely, where problems are widespread, involve multiple creditors for single borrowers, and large, collateralized, and relatively homogenous NPLs, which is often the case in portfolios of large corporate or real estate loans. In contrast, relatively small retail loans, where the lender's knowledge of its customers is important to managing the loans, and there are no other major creditors, may be best left with the originating banks. If poorly designed or implemented, AMCs can entail significant moral hazard and fiscal cost. Importantly, AMCs could incur high fiscal costs (if the state is involved) and bail out shareholders and creditors if they overpay for NPLs; as bank managers will typically be reluctant to sell assets significantly below book value given the adverse impact on their capital. IMF-supported programs would need to set aside appropriate public funding, and depending on the set-up, AMCs might also need to be consolidated within public debt (including for the purpose of DSA).

***Supervision, Regulation and Macroprudential (MPP) Policies***

**126. If deemed critical for the program success, programs should also include measures to enhance the prudential framework and the country's financial safety net.** Those would typically focus on prudential regulation, supervisory early intervention, resolution regimes, depositor protection, and emergency liquidity assistance (see Dobler, Moretti and Piris, 2020), while a well-articulated MPP framework would be also important for crisis prevention. Drawing on FSAPs (if available), staff should adhere to evaluations and assessments of the implementation of the standards issued by the Basel Committee on Banking Supervision, including the Basel Core Principles (BCP) for effective banking supervision. FSAP documents on Basel standards may include structural measures to boost supervisory powers, independence, and capacity, as well as actions to enhance risk-based tools, enforcement approach, and bank governance frameworks. The overall objective would be to enhance the institutional, legal, regulatory, and supervisory framework, which would enable strong and intrusive supervision, together with early intervention powers as part of the country's crisis preparedness toolkit. Regarding effective resolution regimes, staff should be guided by the FSB Key Attributes best practices, tailored to country specific circumstances.[182] Staff should not recommend introducing deposit insurance in countries with weak and undercapitalized banks; these and other weaknesses first need to be addressed.[183]

**127. For programs in jurisdictions with banking sector problems, staff should pay close attention to specific supervisory weaknesses and leverage on program conditionality to promote adherence to international standards.** Supervisory weaknesses often include lack of supervisory independence and powers, conflicting objectives or not sufficiently clear mandates,

[182] See Nolte and Hoelscher 2020.

[183] For further information, please consult the forthcoming paper on designing deposit insurance schemes.

under-resourcing, insufficient oversight, weak enforcement powers, and capacity constraints. While these weaknesses are particularly relevant for LIDCs (IMF LIDC Report, 2016), IMF assessments during FSAPs indicate that there is a general need, almost across the board, to enhance these institutional settings.[184] Addressing institutional weaknesses as part of programs is particularly important because it often requires changes in legislation. Supervisory and regulatory reforms may also be needed to improve supervisory effectiveness. Adopting risk-based supervision and a sufficiently intrusive oversight of banks' governance and risk management are key elements for a sound supervisory approach. Regulatory reforms may also be needed to strengthen banks' capital and liquidity levels and to ensure a timely identification of banks' risks and recognition of expected losses. Proportionality aspects should be considered in introducing international regulatory reforms in LIDCs, by prioritizing those standards that align with their current needs and by ensuring that supervisory gaps and capacity constraints are appropriately addressed.[185] At the same time, the recent IMF experience with bank failures in LIDCs has highlighted substantial gaps in the financial safety net such as the absence of options to resolve banks without resorting to public bail-outs, lack of deposit insurance in many LICs, and insufficient arrangements on the provision of central bank liquidity at times of stress (IMF LIDC report, 2019). Conditionality in Fund-supported programs for LICs should also be tailored to country-specific factors and the capacity of the authorities.

**128. An effective MPP framework and instruments can be introduced in programs to address macro-financial systemic risks.** In general, MPP instruments aim to reduce systemic risks over time, including in key markets (e.g., housing) or institutions. MPP measures are usually preventive in nature and adopting them during a crisis risks intensifying an already sharp credit slowdown. For this reason, only a small number of recent programs have included the adoption of new MPP tools, for example, tools to reduce exchange rate risks (Armenia, Belarus, and Hungary) or review of Loan-to-Value ratios (Ireland). It is worth noting that adoption of macroprudential policy frameworks, along with legislation allowing the use of such tools, could be useful as structural benchmarks. This can be the case even if the program may not involve the introduction or tightening of such tools. Staff can draw on a wealth of IMF expertise, including on instruments' guidance, and MPP considerations for LICs.

***Market Development & Financial Inclusion***

**129. Policies to develop and deepen domestic financial markets can lend support to other program objectives, such as increasing investment or reforming the pension system.** Financial market development is typically more relevant for developing countries that need to deepen capital markets, facilitate non-bank financing, and extend risk sharing through insurance markets. Programs could include structural measures, such as improving the infrastructure for trading, clearing, and securities depository; regulatory measures, such as relaxing investment restrictions for non-residents, and supervisory measures, such as administrative procedures and transparency in securities trading.

184 See Dordevic, Ferreira, Kitonga, and Seal, "Strengthening Bank Regulation and Supervision: National Progress and Gaps," IMF Departmental Paper, 2021.

185 See Ferreira, Jenkinson, and Wilson, "From Basel I to Basel III: Sequencing Implementation in Developing Economies", IMF Working Paper, 2019.

In considering relaxing investment restrictions for non-residents, staff could refer to the 2022 Institutional View for detailed guidance, considering that liberalization needs to be well planned, timed, and sequenced to ensure that its benefits outweigh the costs and to reduce the risks of potentially costly backtracking that may undermine the credibility of the liberalization plan. Capital market deepening can be facilitated by establishing liquidity benchmarks from domestic government bonds, or listing shares of SOEs (see also IMF LIC report (Box 2), 2021).

**130. Efforts to promote financial inclusion can also support growth and financial stability program objectives.** Financial inclusion typically centers on access to, and use of, formal financial services by households and firms (see Barajas et al, 2020, for an overview, and more specifically Sahay et al., 2015, for a discussion of increasing financial access for women). This includes microfinance and digital and mobile banking, and also relates to financial literacy. Financial inclusion is being emphasized as part of the global policy agenda.[186] Pursuit of financial inclusion should not and does not have to entail relaxation of the prudential framework while emphasizing proportionality as noted above. Means of meeting financial inclusion objectives should be identified which are consistent with sound regulatory practices.

## I. Structural Conditionality

**Recommendations of 2018 Review of Conditionality and Program Design**

- **Identify, prioritize, and sequence reforms based on criticality**, drawing on structural gaps from surveillance and TA to ensure an integrated approach.
- **Apply** greater **realism in implementation timetables and estimated reforms payoffs, while considering longer Fund engagement to support structural reform agendas.**
- **Continue** to build expertise in critical shared areas of responsibility (e.g., Labor Market Reforms, or LMR and Product Market Reforms, or PMR), and enhance collaboration with other institutions that have expertise in non-core areas.

Summing up

Noting the marked increase in the volume of structural conditions, Directors called for further prioritization of reforms critical to specific program objectives to ensure both the parsimony and depth of structural conditionality. They agreed that the selection of conditions should be informed by structural gaps identified in surveillance and technical assistance, and involve collaboration with relevant institutions. A number of Directors called on the Fund to continue building expertise in shared areas of responsibility such as labor, product, and financial market reforms, which are key to competitiveness and private-sector-led growth. Some Directors felt that the Fund should further strengthen cooperation with other international institutions, notably the World Bank, on emerging issues such as governance and anti-corruption…Given difficulties with implementation of structural conditions, Directors stressed the need for more realistic implementation timetables and estimates of reform payoffs.

[186] For example, the 2030 Agenda for Sustainable Development emphasizes greater access to financial services to women and to small and medium-sized enterprises. For further reference, see also IMF SDN/15/17.

**Recommendations of 2018 Review of Conditionality and Program Design** (concluded).

**2nd Board-endorsed recommendation from the IEO Evaluation Report On Growth And Adjustment In IMF-Supported Programs (IMF, 2022):**

IMF-supported programs should pay greater attention to supporting deep, more growth-oriented structural reforms, with more effective CD support and collaboration with partners—such as the World Bank—in areas outside the Fund's core mandate and expertise.

- Structural conditionality should be parsimonious enough but also more focused on removing structural impediments critical to achieving sustained and inclusive growth.
- The Fund should seek ways to strengthen collaboration with the World Bank and other relevant partners in design and implementation of structural reforms in shared and non-core areas.
- The Fund should revisit how CD support is integrated with program design and implementation

**131. The selection and prioritization of individual structural conditionality should be based on staff's assessment of criticality for program success, drawing on a range of country-specific and cross-country resources.** Staff should clearly explain how the proposed structural conditionality will help achieve program objectives and assist in the resolution of the member's BoP problem. In evaluating which potential reforms could be critical to program success, staff should consider structural *gaps or weaknesses* identified in prior Fund surveillance, TA reports, or external analyses (e.g., OECD reports).[187] This could also leverage research on reforms identified as having a high pay-off for countries in similar situations.[188] For example, for emerging market economies, the largest productivity payoffs tend to be associated with reforms that improve market functioning.

**132. Making a clear judgment on whether a measure is critical to program success requires an assessment of the potential economic impact of different reforms, including:**

- **Growth and employment implications**. Staff should pay attention as much as possible on how the structural conditions impact economic growth, specifically how the proposed reforms help alleviate structural impediments to sustained and inclusive growth. Care should be taken in assessing structural reform payoffs, since benefits often take longer than expected to materialize and depend on an uncertain economic recovery.[189] As noted in section (III), while considering the trade-off between ambition and realism, PNs and SRs should apply conservative assumptions, and clearly distinguish between short-, medium- and long-term effects on growth and employment.
- **Facilitation of external rebalancing.** Since external rebalancing is at the core of IMF-supported programs, staff should also pay due attention to how structural conditionality can help maintain

[187] 2018 RoC para 41-42.

[188] See IMF (October 2019 WEO, Chapter 3) and SDN/19/08 for further analysis. See also Andritzky et al. (2021) for an overview of the literature and case studies.

[189] See IMF (2019), p. 20 (para 20). For additional information, please see Crisis Program Review (IMF, 2015), notably Annex II on Structural Conditionality and Growth Payoffs.

and restore rebalancing and resilience. Culiuc and Kyobe (2017) show that, *inter alia*, better selected structural indicators are associated with higher responsiveness and resilience of the economy to exports to external shocks, with the kind of reforms that matter varying by country income level and circumstances.

- **Distributional consequences**. Staff should also discuss the possible distributional impact of reforms and program design options to protect the vulnerable.[190]
- **Fiscal effects**. PNs and SRs should clearly lay out the fiscal implications of reforms, bearing in mind the difficulty of phasing out offsetting fiscal measures once introduced, including after conclusion of the program.

**133. Country-specific economic circumstances also factor into an evaluation of the potential economic impact of reforms:**[191]

- **Stage in the economic cycle.** The larger a country's output gap, the more the member's program should prioritize structural reforms that will support growth in both the short and longer term, notably infrastructure investment, which could yield potentially larger fiscal multipliers in times of economic slack.[192]
- **Scope for macroeconomic policy.** Monetary and fiscal policy can offset possible negative effects of structural reforms e.g., reforms that aim to foster competition or reduce subsidies could be accompanied by measures to strengthen social safety nets to mitigate the impact on the vulnerable. Where budget constraints are binding, or looser monetary policy is not available, to the extent possible, consideration could be given to sequencing reforms to favor low- to no-cost measures with positive demand effects (e.g., reducing product market entry barriers), or budget-neutral reform packages (e.g., an increase in infrastructure spending financed by a reduction in energy subsidies).
- **Type of shock/program context.** The type and sequencing of structural conditionality should be tailored to the shock. For instance, informal staff-level guidance during the COVID-19 pandemic suggested that programs introduce or bring forward reforms that address specific consequences of the pandemic, notably measures to broaden coverage of existing social programs or beef up the corporate insolvency regime.

**134. Consistent with the 2022 MIP concerning growth and adjustment under Fund-supported programs, attention is needed to include structural conditionality with adequate depth.**[193] The depth of structural conditionality refers to the degree of structural change they would

[190] See, for instance, Macro-Structural Policies and Income Inequality in Low-Income Developing Countries", Staff Discussion Note No. 2017/01 (Washington).

[191] IMF (2016).

[192] See IMF (October 2019 WEO, Chapter 3) on the role of an economy's cyclical position.

[193] The concept of "depth" was first introduced in the 2007 IEO evaluation on structural conditionality. Subsequent RoCs followed that methodology, classifying structural depth into three categories (low-, medium- and high-depth)

(continued)

bring if implemented, and on the durability of that change. The depth of structural conditionality can be categorized into three groups, i.e., low-, medium- and high-depth structural conditionality as explained below. While the MIP stressed "greater attention to supporting deep, more growth-oriented structural reforms," it should be noted that higher depth does not automatically imply higher quality or a greater difficulty of implementation. That said, higher depth structural conditions would generally require stronger commitment and buy-in from all stakeholders.

- **Low-depth:** This category includes measures that are necessary steps but would not, by themselves, bring about any meaningful economic changes. They may serve as steppingstones for significant reforms, e.g., diagnostic studies and action plans.
- **Medium-depth:** This category includes measures that are sufficient to deliver a meaningful impact, but the impact would be short-lived. They include one-off measures that can be expected to have an immediate and possibly significant effect on growth, the fiscal position, etc., but that would need to be followed by other measures for this effect to be lasting. Examples include budget approval or one-time change in energy tariff rates as compared to a permanent change of institutionalizing an automatic tariff adjustment (Andritzky et al., 2021).
- **High-depth:** This category includes measures that, by themselves, would bring about important and long-lasting changes in the institutional environment. Successful implementation of a high-depth structural conditionality would imply high likelihood of related structural reform goal being accomplished. Most of the conditions in this category entail legislative changes (e.g., approval, adoption, or enactment of legislation by a parliament). Examples include reforms involving permanent institutional changes often involving legislative changes such as a change in the Central Bank Act, or reforms with long-lasting impacts such as civil service reforms, SOE reforms, and privatization (Andritzky et al. (2021)). That said, it should be acknowledged that high-depth reforms to submit or approve legislation may not necessarily translate into actual implementation, underlying the importance of ex post monitoring. In the event implementation stalls, additional structural conditionality (including via prior actions) could be considered.

Notwithstanding the examples provided above, a given structural condition may also be classified as having a different depth depending on countries due to different country-specific circumstances (e.g., capacity, resources, and political constraints). The ultimate judgment of depth would lie with the country teams, considering country circumstances.

according to the durability of the structural change. The 2018 RoC also includes examples of parsimonious and focused SCs.

**135. Staff should consider factors affecting implementation:**

- **Political context.**[194] As noted above, staff should assess specific challenges to program implementation as well as other country-specific issues such as political structures if key reform measures hinge on legislative approval or on actions by lower levels of government rather than on executive actions alone. In some instances, where implementation requires cooperation among several ministries or parties, the positions of these ministries or parties are relevant to the assessment.
- **Administrative and capacity constraints, and technical assistance.** Staff should assess technical capacity, identifying key capacity constraints, explain how they may affect program implementation, and identify measures to build capacity where needed, including technical assistance and training needs. Staff should also indicate the modalities of the relevant CD, such as proposed timing and its linkage to structural conditionality.[195] As emphasized in Box 5, staff should be guided by the experience and knowledge derived from the CD engagement, including via regular discussions with CD providers, which can help to evaluate state capacity and the binding constraints that confront specific reforms that may form the basis of program conditionality.
- **Legal issues.** Staff should consider any potential legal implementation risks to the reforms, such as their constitutionality or potential legal challenges.
- **Required collaboration with other institutions.** Staff should consider the extent to which the Fund has available expertise in proposed reform areas, and options for collaboration with other institutions, where necessary. See Annex T for further detail.

**136. Finally, staff should consider the potential interactions between different reforms and, in conjunction with the authorities, develop an overall plan for packaging, sequencing, and communicating structural conditionality.** Given the factors identified above, staff should assess how the packaging, sequencing and communication of reforms can maximize their economic impact and minimize implementation risks:

- **Packaging.** Structural reforms could be combined with fiscal or monetary policies or other complementary or enabling structural reforms. The choice depends on political economic considerations that could ease the implementation of a specific structural reform by compensating or offsetting negative short-term effects on the economy or stakeholders.
- **Sequencing.** The ordering of reforms and the speed of execution should be discussed and factored into proposed program design, with possible implications for program length and financing requirements. For example, product market reforms (PMRs) aimed at reducing barriers

[194] See Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guideline (IMF, 2014, paragraph 9), which states that "Explicit assessments of potential implementation difficulties should be included in PNs."

[195] See Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guideline (IMF, 2014), paragraph 10, and "Implementation Plan in Response to Board-endorsed Recommendations from IEO Evaluation Report on Growth and Adjustment in Fund-Supported programs (IMF, 2022).

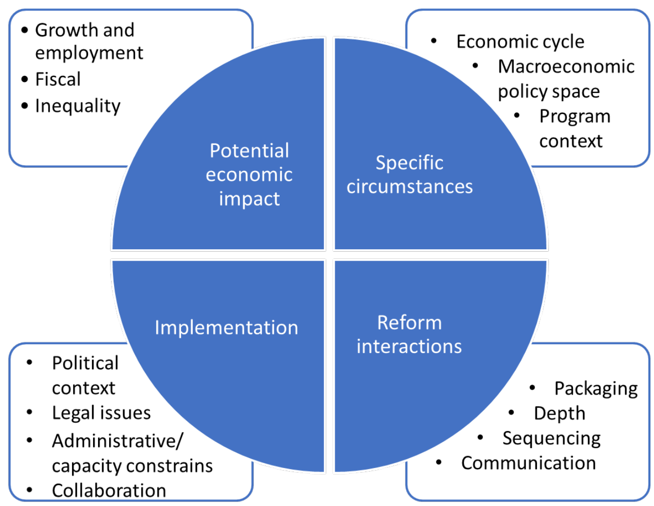
to entry can have a positive short-run effect on growth, while labor market reforms (LMRs) reducing excess job protection can have a negative short-run employment effect.

- **Communication.** The scope for building broad-based support and ownership through transparency, active communications, and involvement of different stakeholder groups should also be discussed.

**137. PNs should present a clear and comprehensive assessment of the proposed structural conditionality, ideally using an evaluation matrix.** Given the broad range of potential evaluation criteria needed to determine the prioritization, depth, packaging and sequencing of conditions, staff is encouraged to organize and present its assessment in an evaluation matrix (see Figure 5 and Table 3) and use it as a planning tool to ensure a comprehensive assessment of structural conditionality from all relevant aspects. Such a matrix would also provide a transparent overview for each reform area (e.g., labor market reforms, product market reforms, etc.) and could be included in the PN or country engagement strategy.[196] Alternative matrices for different reform options in a certain area can serve the discussion on the pros and cons (and inevitable trade-offs) of different reforms and design options, implementation risks. This discussion should also draw on the current literature.[197] PN should also include an annex table mapping (whenever possible) structural benchmarks with CD findings and planned CD from the Fund and other multilateral organizations that would support the reform implementation.

**Figure 5. Evaluation Criteria for Structural Reforms**

Illustrative Stylized Considerations




**138. Even if not using the evaluation matrix, PNs for a new Fund arrangement request and at each review should indicate for each structural condition its depth and rationale for inclusion in the program.** Depth and rationale should be added to the typical structural conditionality table. The column setting out the assessed depth of structural conditionality should not be included in staff reports. In principle, it is neither necessary nor feasible that all SCs be high-depth, and in some cases (e.g., FCS) there may be few structural conditions of high depth at a given point in time. Nor should high/low depth of structural conditionality be interpreted as meaning high/low quality, it should rather reflect the degree of proximity to achieving the structural reform

[196] See Andritzky et al. (2021) for examples of reform areas discussed in the evaluation matrix format.

[197] See 2018 Review of Program Design and Conditionality (IMF, 2019).

goals. The ultimate judgement of the depth of a structural conditionality would lie with the country teams who are in a better position than others to assess country-specific conditions, although they should explain clearly and effectively any such judgements.

**139. Staff reports should include a concise discussion of the criticality of the structural conditionality for program success, which were developed in collaboration with the authorities, along with the proposed packaging, sequencing, and communication of reforms.** While the discussion can be less extensive than in the PN, the staff report should discuss the key considerations behind the choice, prioritization, packaging, sequencing, and communication of reforms, with reference to the various implementation risks, and proposed CD support. While political capacity risks should be discussed candidly, with due attention to authorities' view, staff should take care to ensure that the assessment does not itself undermine the authorities' ability to implement the program and therefore the credibility of the program.

**Table 3. Evaluation Matrix for Structural Reform Options**

Structural reform area: ______________________________________________

Proposed structural benchmarks: ______________________________________________

| Criterium | | Evaluation |
|---|---|---|
| Context | Macroeconomic context | |
| | Political context | |
| | Program context | Structural gaps<br>Program objectives<br>Program aspects such as program design, access, program risk, and parsimony |
| Reform interactions | Packaging | |
| | Sequencing | |
| | Depth | |
| Reform impact | | Including impact on growth, employment, fiscal, and inequality |
| Implementation | Administrative/capacity constraints and technical assistance | |
| | Legal issues | |
| | Collaboration with other institutions | |

### *Shared and Non-Core Structural Reform Areas*[198]

**140. Structural reforms in Fund-supported program can span a wide range of areas.** Typically, program conditionality have focused on fiscal-structural reforms (see Section II.F) or central bank and financial sector reforms (see Section II.H). However, as noted in the 2018 RoC, more stringent identification and prioritization of structural conditionality, following the above evaluation criteria, is likely to imply a larger weight of conditionality in other shared and non-core reform areas, particularly those set out below:[199]

- **Labor Market Reforms (LMRs).**[200] LMRs encompass measures to increase labor market flexibility, reduce excessive wage rigidity, strengthen safety nets, reduce informality, enhance labor force participation, notably of women, and address labor market dualism. In designing LMRs, staff should always consider that policies and institutions can play a pivotal role in reducing inequality, are closely interlinked with fiscal policy, and can enhance potential growth by increasing labor force participation.[201] Measures can affect a large share of the workforce and be politically contentious. Instead of reducing severance pay, labor market flexibility could be enhanced by reducing uncertainty about the cost and duration of firing procedures.[202] Reductions in the national minimum wage can yield quick wins for internal devaluation but may undermine institutional processes for minimum wage setting and raise inequality concerns, though the latter could be mitigated with offsetting fiscal measures.[203] In many countries there is greater scope for raising labor force participation among women, which may provide rationale for gender-focused LMR conditionality where raising labor force participation is considered critical to the success of the program. Measures to reduce employment protection can be complemented by improvements in unemployment insurance. Attention should also be paid to the role of active labor market policies, particularly following public employment cuts, as well as efforts to curb informality. Collective bargaining reform can focus on the extent of centralization (e.g., industry or regional level), degree of representativeness, and type of coordination between bargaining parties and administrative extensions of collective agreements.[204] Given the high risk of reform reversals, conditionality should protect reform gains, for instance by emphasizing institutional change rather than one-off adjustments.

---

[198] For a classification of core versus non-core structural conditionality, please see Appendix II of the 2018 Review of Program Design and Conditionality.

[199] Note that there is no conclusive nomenclature that clearly delineates structural reforms from fiscal or financial reform areas with structural character.

[200] For recent examples of LMRs in Fund programs, refer to Greece (2010 SBA and 2012 EFF), Portugal (2011 EFF) and Ukraine (2012 SBA). See AMG (2020) for a case study of LMRs in Latvia.

[201] See the IMF's Labor Market Reform Estimates Database which compiles relevant estimates of the effects of labor market policies on various macroeconomic and microeconomic outcomes from a broad range of macro- and microeconomic studies.

[202] See IMF (2019b, SDN/19/04).

[203] See IMF (2015a, SDN/15/13) on inequality, and IMF (2017c, SDN/17/03) on fiscal costs, gains, and support.

[204] See IMF (2019b, SDN/19/04) and IMF (2015b, SDN/15/03).

- **Product Market Reforms (PMRs)**.[205] Whereas LMR typically involves high-profile reforms, the design and implementation of PMRs usually involve smaller reforms involving a large degree of country-specific detail which are often opposed by vested interests and slowly materializing payoffs. Product market deregulation in non-tradable sectors, in particular services, can meaningfully enhance labor productivity in the medium term through both higher TFP and capital intensity.[206] PMRs tend to be more successful when aimed at general frameworks over a wide range of sectors (such as investment codes or competition laws), or when targeting strategic sectors (such as the mining sector of a commodity exporter). Related policies could include promoting entrepreneurship and innovation.[207]

- **Social sector reforms (esp. pension reform).** Social sector reforms span a wide range including social assistance, pension, health, and education. Given the consequences of aging, pension systems can have a large impact on fiscal sustainability.[208] For further discussion, please see discussion on structural measures to strengthen social safety nets (¶77).

- **State-owned enterprises (SOEs) reform**.[209] SOE reforms are common in IMF-supported programs, and tend to focus on improving productivity, supporting fiscal adjustment and inclusive growth.[210] SOE reforms could be packaged with temporary sector-specific social measures to support employees and enterprises when necessary during a restructuring or following privatization. SOE reforms typically take time, so program design needs to accommodate a realistic timeline and allow for some flexibility. Fund-supported programs could consider complementary reforms such as PFM, LMRs and reforms of the business environment.

- **Energy reforms.**[211] A subset of PMRs, reforms to the energy sector often focus on reducing energy subsidies to support fiscal adjustment, facilitating investment in the energy sector, and enhancing competition).[212] Conditionality can pertain to developing a comprehensive energy sector reform plan, improvements to SOE efficiency to reduce producer subsidies, price increases that are phased-in gradually including well-targeted measures to protect the poor and vulnerable, or institutional reforms that depoliticize energy pricing, such as the introduction of automatic pricing mechanisms. Given these measures can adversely affect large parts of the population, transparency and extensive communication is important, and reforms need strong commitment and persistent efforts.

---

[205] For recent examples of PMRs in Fund programs, refer to Greece (2012 EFF), Egypt (2016 EFF), Portugal (2011 EFF) and São Tomé and Príncipe (2009 PGRF). See AMG (2020) for a case study of PMRs in Portugal.

[206] IMF (2017b, SDN/17/04), and IMF (2018a, WEO Apr Chapter 2) on labor force participation.

[207] See IMF (2016d, Fiscal Monitor April, Chapter 2).

[208] For recent examples of pension reforms see, among other, Georgia (2017 EFF) and Ukraine (2015 EFF). See Andritzky et al. (2021) for a case study of Georgia.

[209] See Andritzky et al. (2021) for related lessons from SOE reforms in Serbia.

[210] Baum et al. (2019) found that close to 90 percent of IMF-supported programs included SCs on SOEs in the period 2002–17

[211] See Andritzky et al. (2021) for the experience of Jordan.

[212] Clements et al. (2013).

- **Insolvency and creditor rights reforms.** Reforms of insolvency and creditor rights frameworks can be contemplated outside the context of a financial crisis (on this aspect, see previous section on financial sector conditionality). Insolvency regimes have an impact on the ability of enterprises to survive shocks and afford the possibility of preserving jobs in distressed enterprises. Personal insolvency regimes provide a second chance for entrepreneurs and over-indebted consumer, and reforms of creditor rights (including mortgage and secured transactions laws) have a positive impact on access to finance by enterprises and households.

- **Governance, including anti-corruption.** Under the Fund's 2018 Framework for Enhanced Fund Engagement on Governance, to determine whether reforms to address governance vulnerabilities should be a condition for the use of the Fund's resources, the Fund will assess: (i) the severity of governance vulnerabilities; and (ii) whether addressing the identified vulnerabilities is of critical importance for achieving the goals of the member's program. Structural conditionality related to governance vulnerabilities typically focuses on state functions that are most relevant to economic activity; namely: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) AML/CFT. Where macroeconomically critical, it also focuses on transnational aspects of corruption, particularly measures designed to prevent the bribery of foreign public officials or providing services that facilitate concealment of corruption proceeds. A 2023 paper reviewed the implementation of 2018 Governance Framework and discusses in more detail governance and anti-corruption-related conditionality in Fund-supported programs.[213]

- **Financial Integrity and AML/CFT**.[214] AML/CFT issues should be integrated in Fund-supported programs, when financial integrity issues are critical to financing assurances or to achieve program objectives.[215] Financial integrity measures can help tackle corruption, address tax crimes to improve revenue collection, facilitate members' access to the international financial system, and combating terrorist financing. Such measures can include legal reforms (e.g., upgrading the AML/CFT legal and regulatory frameworks in line with the international standards set by the Financial Action Task Force), institutional reforms (e.g., strengthening AML/CFT supervisors and financial intelligence units), and effective implementation (e.g., risk-based AML/CFT supervision, targeted measures on politically exposed persons, transparency of beneficial ownership information).

[213] IMF Policy Paper, Review of Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance, April 11, 2023

[214] IMF Policy Paper, Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism, October 17, 2018.

[215] IMF Executive Board Revised the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014.

## Coordination and Collaboration with Other IFIs/RFAs

**141. The extent of in-house expertise is one of the factors to be considered to determine the extent of collaboration with other institutions**.[216] Table 4 provides a general classification of policy areas of expertise which are core, shared, or non-core from the Fund's perspective, although this classification is not binding:[217]

- **Core areas of Fund expertise.** For structural issues that are critical to program success and where the Fund has in-house expertise, analysis and policy advice can be developed in-house. Thereby, staff should leverage the Fund's TA and cross-country experience, particularly with respect to policy lessons.
- **Areas of shared expertise or non-core areas.** For structural issues that are critical to program success but where Fund expertise is lacking, staff should draw on expertise from other organizations (e.g., the OECD on product markets, the ILO and OECD on labor markets, and the World Bank on the structural aspects of the health and education sectors, and infrastructure needs), including seeking advice how Fund staff can monitor implementation of the structural conditionality, and leverage on their CD findings and planned CD activities to ensure durability of structural reforms.[218]

**142. Cross-conditionality, under which the use of the Fund's resources would be directly subject to the rules or decisions of other organizations, is prohibited under the Fund's Guidelines on Conditionality**.[219] The Fund cannot delegate its responsibility in establishing or assessing whether the conditions for the use of its resources have been met. When Fund resources are committed to a Fund-supported program in collaboration with other institutions and the Fund assesses that the conditions have not been met, it will not disburse, irrespective of the judgments reached by other institutions. Conversely, in cases where the Fund makes an assessment that the conditions have been met, but its judgment is not shared by other organizations, the Fund may not be in a position to allow use of its resources, however, if delays in disbursements by other institutions raise financing assurances issues, i.e., the program is not fully financed.

---

[216] See also Annex T.

[217] The 2018 RoC (Appendix II) categorized structural conditions into areas of responsibility; that is, core, shared, and non-core areas of Fund responsibility. This largely followed the classification used by the IEO (2007) and the 2011 RoC, with the only change being the shift in classification of financial sector SCs from shared to core for both AMs and EMs/LIC, reflecting the increasing importance of financial sector issues to the Fund during the period.

[218] With some other international bodies, the IMF has formal agreements. See 2007 "Enhancing Collaboration – Joint Management Action Plan" (World Bank), 1996 Cooperation Agreement with the WTO, 2008 Joint Letter (Financial Stability Board), Implementation Plan in Response to the Board-Endorsed Recommendations From the IEO Report On IMF Collaboration With the World Bank on Macro-Structural Issues (IMF, 2021) and joint Bank-Fund Staff Guidance Note On Information Sharing Between the IMF and World Bank Staff (IMF, 2022).

[219] For further background, see 2002 IMF Guidelines on Conditionality, notably discussion of coordination.

**Table 4. Classification of Structural Conditions by Subject**

| Category | Description |
|---|---|
| Fiscal | Revenue administration (incl. customs)<br>Expenditure measures (incl. arrears clearance)<br>Debt management |
| PFM/RA | Revenue measures<br>Budget preparations<br>Expenditure auditing<br>Fiscal transparency<br>Inter-governmental relations |
| Central bank | Central bank operations, auditing, transparency, and financial controls<br>Exchange systems and restrictions/MCPs, FX interventions and FX market |
| Financial sector | Financial sector legal reforms, regulation, and supervision<br>Restructuring and privatization of financial institutions |
| Pension and civil service reform | Pension reform<br>Health and education sector reforms<br>Civil service and public employment reforms (incl. wages)<br>PRSP development and implementation |
| SOE reform | Public enterprise reform (excl. financial sector)<br>Public enterprise pricing and subsidies<br>Privatization |
| Social | Other social sector reforms |
| Other macro-structural | Labor market reforms (excl. public sector)<br>Product market reforms (excl. financial sector)<br>International trade policy (excl. customs)<br>Statistics<br>Governance (incl. anti-corruption)<br>Natural resource and agricultural policies (excl. public enterprises and pricing) |

Note: Font color indicates area of Fund responsibility: core, shared, non-core.

## Conditionality Design in Fragile States

**143. Structural conditionality should be well-tailored to fragile states' specific characteristics, taking into account key manifestations of fragility and/or conflict.**[220] CES should guide the prioritization and sequencing of tailored structural reforms in FCS by providing an assessment of fragility and conflict drivers and serving as a high-level longer-term strategic anchor for Fund's engagement with FCS, including for strengthening the integration of surveillance, CD, and lending. The CES analysis shall underpin, but not predetermine, the Fund-supported program engagement. The structural reform agenda underpinning program design and conditionality in FCS needs to be adapted to: (i) the country's capacity to implement required policies; (ii) binding political

[220] See The IMF Strategy for Fragile and Conflict-Affected States (IMF, 2022).

economy constraints; and (iii) the lingering impact of conflict and other fragilities, to the extent that the conditionality remains appropriately ambitious to achieve the program objectives.

**144. The pace and timing of macroeconomic adjustment and structural reforms un a Fund-supported program should be flexible and calibrated to the political and social context, while meeting applicable Fund policy requirements.**[221] In some cases, full-fledged structural reforms may not be optimal or feasible at the beginning of the program when extensive support across the political and social context has yet to be entrenched. In this context, the ECF offers adequate flexibility to develop policies and reforms progressively. In the immediate aftermath of violence and in volatile security environments, a short-term focus in the initial stage could help the authorities implement measures to ensure stability. In turn, successful implementation of program measures at an early stage could help to achieve political buy-in, thereby enhancing the authorities' program ownership. As the macroeconomy stabilizes and capacity improves, a comprehensive reform agenda would become more appropriate.

**145. The assessment of program implementation should be conducted against the key question as to whether the program remains viable**. While many FCS authorities have made tremendous efforts to keep their program implementation on track, the risk of programs going off-track is high. If an SB is not observed, it could be reset or modified to more realistic targets or may be even dropped if staff assesses the non- observance of the SB would not undermine program objectives.[222] Similarly, if adjustment to SBs is needed owing to changes in economic conditions, staff may propose to the Board to modify SBs ahead of time.[223] The Poverty Reduction and Growth Strategy would normally be expected by the time of the second review under an ECF arrangement, but the member may request Board approval for an extension of this deadline in case it has limited institutional capacity.

[221] See The IMF Strategy for Fragile and Conflict-Affected States (IMF, 2022).

[222] A measure may be set as a prior action when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures.

[223] For more information about the use of the existing flexibility of the lending toolkit to improve program design and streamline conditionality in FCS see Section II.C above and Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States (IMF, 2023).

# Annex I. Annex Of Procedural Issues

## A. Waivers of Non-Observance or Applicability

**1. A waiver of non-observance must be requested from the Board when a quantitative periodic or continuous performance criterion (PC) was not observed**. Such waiver may be granted if the Board is satisfied that, notwithstanding the nonobservance, Fund-supported program will nevertheless be successfully implemented either because the non-observance is minor or temporary, or because corrective actions have been taken by the authorities (see also the Guidelines on Conditionality, 2002). In practice, corrective actions provide the most common grounds for waivers of non-observance and the basis for concluding that the program will be successfully implemented notwithstanding non-observance. If a nonobservance of a PC tied to future test dates/reviews is already evident, the staff report and LOI/MEFP would need to provide assurances that understandings on appropriate policies have been reached and that the program remains on track to achieve its objectives and that a waiver for the nonobservance of PCs will be sought at the subsequent review if the PC is eventually not met. Any decision granting a waiver for the nonobservance of a PC under an arrangement will be made conditional upon the accuracy of data or other information provided by the member to assess observance of the PC in question (see Section D. Misreporting).

**2. The request for a waiver and staff's recommendation should be explicit in the document**. After confirmation that the PC was not met, a request for a waiver of its non-observance should be made by the member in the LOI (and cited in the PN/SR title, staff appraisal, and the program discussion section of the text). Staff's recommendation on the granting of the waiver should be justified in the documents on one of the 3 available grounds. PNs and SRs should also attempt to separate non-observance of quantitative PCs into the portion caused by exogenous shocks (e.g., pandemic, draught) and the portion caused by failure to implement program policies. In cases of unjustified failure to implement program policies, immediate corrective actions to address such failure and compensate for the slippage may be required.

**3. A waiver of applicability is requested when a test date has passed, but there is insufficient information available to assess the observance of a PC**. This type of waiver may be granted if the Fund is satisfied that, notwithstanding the unavailability of the information necessary to assess observance, the program will be successfully implemented and there is no clear evidence that the PC will not be met. There is an important difference between GRA and PRGT arrangements. Whereas each ECF or SCF disbursement is linked to a specific PC test date/review, under the GRA arrangements purchases are conditioned upon observance of the PCs relating to the most recent test. As such, waivers of applicability under the ECF or SCF are rare, since information on PCs is usually available.[1,2] In arrangements with blended financing, waivers of applicability will be required for the GRA-financed arrangement if the review is being conducted after the most recent test date has passed and data are not yet available. Any decision waiving the applicability of a PC under an arrangement will be made conditional upon (i) the accuracy of the member's representation that the information necessary to assess observance of the relevant PC is unavailable, and (ii) the accuracy of data provided by the member to assess observance of the same PC for a preceding period (if applicable for that period) (see Section D. Misreporting).

***For more information:***

*2018 Review of Program Design and Conditionality* (IMF, 2018)

*Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

*Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review* (IMF, 2013)

## B. Program Modifications

***Cancellation and Expiration of Arrangements***

**4. Arrangements may be cancelled by the authorities at any time.**[3] A request to cancel an arrangement may be made at any time, without a stated reason, but would typically happen if the macroeconomic imbalances have been resolved, the authorities are no longer committed/have the capacity to implement the program, or the objectives or modalities of the authorities' economic policies have changed substantially (e.g., they need to request a new arrangement under a different Fund financing instrument). Otherwise, all arrangements expire when the approved term of the arrangement lapses or if the member draws the entire amount of approved access, or, in the case of ECF and certain SCF arrangements, after protracted delays in the completion of reviews as explained below.

**5. ECF/SCF arrangements may expire in the event of a long-delayed review.**[4] ECF arrangements and SCF arrangements - that have an initial duration of or have been extended to

[1] The design of PRGT arrangement avoids "blackout periods" because each disbursement is linked to the completion of a specific review and to the observance of specific periodic performance criteria, and thus a disbursement is not blocked. In GRA arrangements, the member may purchase any amount available based on earlier completed reviews if the purchase is requested within 45 days of the most recent test date and all the conditions specified in paragraph 2 of the Reduction of Blackout Periods in GRA arrangements decision (Decision No. 14407-(09/105). Also see IMF, 2013a, *Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review*.

[2] For the PRGT, a waiver of applicability granted for a PC at a test date linked to the current review would raise serious questions about the country's capacity to provide timely data as reviews under the PRGT should generally be scheduled with enough time to monitor the data relevant for the applicable test dates.

[3] See Decision No. 6056-(79/38) March 2, 1979, Use of Fund's General Resources and Stand-By Arrangements; and PRGT Instrument (Decision No. 8759-(87/176), Section II, paragraphs 1 (b), (c), (d).

[4] PRGT Instrument (Decision No. 8759-(87/176)), Section II, paragraph 3 (h), Section II, paragraphs 1 (b), (c), (d).

more than 24 months - terminate if no program review under the arrangement has been completed over an 18-month period. The Board may, at the authorities' request, delay expiration for up to three additional months—provided that this extension does not fall outside the existing period of the arrangement—if an understanding between the authorities and staff on the targets and measures that would put the ECF/SCF-supported program back on track appears imminent. The arrangement automatically expires at the end of that extended period unless a program review is completed within this period.

**6. A PCI can be cancelled by the authorities at any time.**[5] The PCI will be terminated upon: (a) the relevant member incurring overdue financial obligations to the GRA, PRGT or RST; (b) noncompletion of a review in any of the following circumstances: (i) where reviews are scheduled semi-annually, noncompletion of a review for a 15-month period computed from the scheduled review date of the last completed review or from approval of the PCI plus, where applicable, the expiration of the grace period in circumstances described in the next paragraph on grace periods and (ii) where reviews are scheduled more frequently than semi-annually, noncompletion of a review for a period of 12 months computed from the scheduled review date of the last completed review or from approval of the PCI plus the lapsing of the buffer period and, where applicable the lapse of the grace period in circumstances described in the next paragraph on grace period; or (c) the approval for the relevant member of an arrangement with the Fund other than a SBA or SCF arrangement or an arrangement under the RSF. Approval of access under the RFI or RCF will not cause termination of a PCI.

**7. A grace period may be provided in case of delays.** Where reviews are scheduled semi-annually, if a scheduled review is not completed within 3 months from the scheduled review date ("buffer period"), the Board will be provided with an interim performance update (IPU) by staff, normally for information. A grace period of 30 days will be added to the buffer period only where within the buffer period (i) a staff-level agreement on the completion of review of the program under the PCI and on the request for a new arrangement has been reached and announced and (ii) a member expresses its intention to notify the Fund of its decision to cancel the PCI and to make joint requests for the completion of the review of the program under the PCI and for approval of a new arrangement, provided that the grace period will be available only for the Executive Board to consider the joint requests referred to in (ii) above. Where reviews are scheduled more frequently than semi-annually, the buffer period that, once lapsed, triggers the IPU will be reduced proportionally, provided that the grace period of 30 days will be added to the buffer period in the circumstances specified in (i) and (ii) described in this paragraph.

***Combined Reviews***

**8. Under the Fund's Articles, a Fund arrangement is a decision of the Fund by which a member is assured that it will be able to make disbursements/purchases in accordance with**

[5] See Adequacy of the Global Financial Safety Net—Proposal for a New Policy Coordination Instrument (IMF, 2017) and Review of the Policy Coordination Instrument and Proposal to Eliminate the Policy Support Instrument (IMF, 2023).

**the terms of the arrangement.** For any review to be completed, PCs associated with that review should be either met, or their nonobservance must be waived in the case of PCs.[6] In principle, once the relevant availability date passes, the member is entitled to the relevant purchase/disbursement, normally subject to the completion of a review and also subject to observance of other conditions. Completion of the review, in turn, is possible only where an assessment can be made that the program remains on track[7] to achieve its objectives based on the member's past performance, and policy understandings for the future.

**9. As provided in the Guidelines on Conditionality, in making this assessment, due consideration should be given in particular to observance of PCs, ITs, SBs and the need to adequately safeguard Fund resources.** Completion of a review also requires that all other relevant Fund policies (such as financing assurances, debt sustainability) are met. Typically, if the member meets all the conditions associated with the relevant purchase/disbursement and there are no concerns with the assessments that underpin the completion of a review[8], such purchase/disbursement would be made available in full upon the completion of the relevant review(s). However, Fund arrangements generally provide that when a member is prevented from requesting a scheduled purchases/disbursement because it either has not met the relevant PCs (or SBs or ITs) or the respective review has not been completed, the purchase/disbursement will be available only after consultation has taken place between the Fund and the member and understandings have been reached regarding the circumstances in which the member may request the purchase/disbursement.[9] Accordingly, in cases where PCs (and or ITs and SBs) are not met and the completion of reviews is delayed, it would be possible for the Fund to complete one review, or combine two (or more) reviews, provided that understandings on policies have been reached. Completion of one (or more) reviews may also be subject to reaching understandings with the member on reducing the amounts that are made available upon completion of the review(s), depending on performance and assessment of risks, and rephasing the remaining access over the remainder of the arrangement. Depending on the circumstances, no review may be completed and the program allowed to lapse or be cancelled by the authorities.

[6] The assessment of program-related structural conditions (structural benchmarks) is conducted through a review and unlike PC, a failure to meet such a structural condition would not in itself result in the non-completion of a program review or trigger the need for a waiver. Instead, such failure would be an indicator that the program might not be on-track and completion of a program review would require a judgment by the Board that there are compensating factors.

[7] "On track" refers to a situation where both the forward- and backward-looking elements of implementing a Fund supported program are satisfactory such that the Board may complete a review under the arrangement consistent with the Guidelines on Conditionality in a timely manner, normally before the availability date of the next disbursement/purchase kicks in.

[8] In the case of a disbursement under the PRGT, its availability is also subject to the completion of a review; in the case of the GRA, this is also normally the case; however, a purchase may only be subject to PCs and no corresponding review.

[9] See the PRGT arrangement, which provides: "When [member] is prevented from requesting disbursements under this arrangement because of paragraphs 4 and 5 above, such disbursements may be made available only after consultation has taken place between the Trustee and [member] and understandings have been reached regarding the circumstances in which [member] may request the disbursements."

**10.** In the context of GRA arrangements, since a review under a GRA arrangement is completed based on the most recent PC test date, all accumulated purchases may be made available under a review or combined reviews, subject to the assessment of program implementation, the member's BOP need, and capacity to repay. The number of completed reviews should be generally aligned with the number of purchases being made available as compared to the original phasing under the arrangement. Normally, no more than three reviews are being combined.

**11.** For combining reviews in the context of PRGT arrangements, if program targets have largely been met at both reviews, and provided that the assessment can be made, based on all the considerations specified in the Guidelines on Conditionality, that the program remains on track to meet its objectives, combining reviews would be expected.[10]

**12.** In the (rare) case where program targets were missed at the first review but met at the second review, there would be a strong case for combining reviews, as satisfactory performance in the context of the second review suggests that deviations in the context of the first review were temporary or corrective actions were put in place.

**13.** In both cases it would be expected that both disbursements in their original amounts would be made available upon completion of the combined reviews.

**14.** However, in the far more relevant case where program targets were missed at the second review (but met at the preceding review), there are generally three options[11], and further assessment on an appropriate option would be needed.

1) *Do not conclude either review.* This would be based on an assessment that the program is irretrievably off-track and that deviations from targets cannot be mainly explained by a large shock such as the pandemic; or that even if they can be explained by a large shock such as the pandemic, the authorities are not prepared to take corrective actions to achieve the objectives of the program. In this case, a "time-out" during which an SMP is put in place to bring the program back on track, or outright cancellation of the arrangement by the member, could be appropriate.
2) *Conclude the first review and reach understandings with the member to rephase access.* The rephasing usually involves spreading access associated with the second (and subsequent) review(s) across future reviews, perhaps combined with an extension of the arrangement

[10] See the various considerations involved in this assessment as specified in paragraph 11(c) of the Guidelines on Conditionality.

[11] All options that involve completion of a review (either only one or combined reviews) need to be consistent with the requirements of the Guidelines on Conditionality: As stated in the Guidelines: "Program reviews provide a framework for an assessment of whether the program is broadly on track and whether modifications are necessary. A program review will be completed only if the Executive Board is satisfied, based on the member's past performance and policy understandings for the future, that the program remains on track to achieve its objectives. In making this assessment, the Executive Board will take into consideration, in particular, the member's observance of performance criteria, indicative targets, and structural benchmarks, and the need to safeguard Fund resources".

when there are only a few reviews left before the arrangement expires. This would be appropriate if deviations cannot be principally explained by the impact of a large shock such as the pandemic and understandings have been reached with the member on corrective actions and on meeting the program's objectives, as well as considerations related to safeguards to Fund resources.

3) *Combine both reviews*. This would be appropriate where the deviations can principally be explained by a large shock such as the pandemic and program objectives can be achieved, including through corrective actions.

***Extensions and Rephasing of Access***

**15.** Subject to IMF Board approval, IMF arrangements can be extended at the request of a member—i.e., the expiration date of the arrangement can be set to a later date, so long as it is within the maximum duration set for arrangements in the specific IMF financing instrument. An extension can be done either by a) rephasing over time the existing amounts of Fund financing under the terms of the arrangement with no additional resources or b) providing additional Fund financing in the extension period. Usually, extensions are requested toward the end of the arrangement, and the extension would have to be justified on policy grounds, including by demonstrating that there is a need for Fund resources because of balance of payments or reserve position, or developments in reserves, e.g., by showing that new financing gaps have emerged in the period beyond the original program.

***Arrangement Extension Without Rephasing of Access***

**16.** An extension of a Fund arrangement involving no rephasing of purchases, with no additional Fund financing, may be warranted when a member needs more time to implement envisaged policies or reforms in line with the program's objectives. In practice, extensions have been approved in cases in which the member needs more time to resolve its BoP problem, for instance, due to negative exogenous shocks that render the original adjustment path unattainable or political developments (including elections) that result in delayed reforms.[12] A short staff paper with a decision proposed for Board approval is prepared for these short-term extensions. The staff paper is subject to the regular departmental review process and should explain the status of the discussions and document preparation and any relevant policy understandings. The Fund may approve extensions of arrangement on a stand-alone basis (can be done on LOT) or in the context of a program review.

***Arrangement Extension Involving Rephasing of Access***

**17.** A request for an extension involving rephasing of access such as an augmentation of access may be warranted when a country experiences longer than anticipated BoP needs which takes

[12] Usually, this would involve short-term extensions of an arrangement that do not involve rephasing if additional time is needed to complete the final review(s) and make the final purchase/disbursement available before the expiration of the arrangement.

longer to resolve, typically due to a negative macroeconomic shock. This might be the case if significant additional BoP needs arise in the extension period that were not originally included in the determination of access at the time of the arrangement request and cannot be covered by rephasing. Request for extensions involving rephasing of access would be made in an LOI and in the context of a program review (where the completion of the review demonstrates that the program is on track) for Board approval. In exceptional circumstances (e.g., when a severe natural disaster or other shock prevents conducting the final review in a timely manner), extensions that involve rephasing may be requested outside of a scheduled program review for Board approval, provided the authorities and staff have understandings on appropriate policies to be implemented through the next review, as documented by a letter from the authorities.[13]

**18. Access should never be rephased in a manner that would make it impossible for the member to get the remaining full undisbursed amount under the arrangement**.[14] If there are important delays in program implementation and rephasing would compress a very large amount of access into a short period, normally the current arrangement would be allowed to expire (or for the member to cancel it) and to proceed to a new arrangement with more attainable goals, unless there has been a very sharp turnaround in performance.

| ***Scenario*** | ***Circumstances*** | ***Comments*** |
|---|---|---|
| Extensions involving rephasing of access | Add time to implement envisaged policies or reforms. | Would normally be approved by the Board based on a request in an LOI and in the context of a program review (where the completion of the review demonstrates that the program is on track). In exceptional circumstances (e.g., when a severe natural disaster or other shock prevents conducting the final review in a timely manner), extensions that involve rephasing may be approved by the Board outside of a scheduled program review, provided the authorities and staff have understandings on appropriate policies to be implemented through the next review, as documented by a letter from the authorities.[15] |
| Extensions with no rephasing/changes of access or establishment of additional reviews | Extending for a short period (a few weeks or months) to allow more time to complete the final review(s) and make the final disbursement available before the expiration of the arrangement. | Short-term extension can be granted outside the context of a review, provided that the authorities and staff have reached (or are expected to reach in the very near term) understandings on appropriate policies to complete the review. Board approval of these short-term extensions generally takes place via a very short staff paper with a decision proposed for LOT Board approval (see Mauritania, 2020). The staff paper is subject to the regular departmental review process and should explain the status of the discussions and document preparation and any relevant policy understandings. |

[13] Board approval would require a staff report that discusses the reasons for the extension, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

[14] See 2023 Handbook of IMF facilities for Low-Income Countries .

[15] Board approval would require a staff report that discusses the reasons for the extension, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

***Changes in Access***

**19. Access can be augmented to help meet a larger BoP need or to support a strengthening of the program.**[16] Augmentation of access would often be an appropriate response to increased actual, potential or prospective BoP needs in the context of shocks, unless the Fund-supported program is off track, in which case RFI/RCF financing may be appropriate.[17] Other sources of financing (catalytic role of the Fund), as well as maintaining a reasonable level of reserves, would also be considered. It is also often the case that the extension of an arrangement period would entail an additional BoP need that was not originally included in the determination of access for the arrangement, justifying an augmentation. Augmentations could occur based on the strengthening of the program if access was initially constrained by a high risk of debt distress, which has later subsided. Under the Trade Integration Mechanism (TIM), augmentation of access not exceeding 10 percent of quota is available to a country to compensate balance of payments shortfalls arising from trade liberalization measures implemented by other countries. [18]

**20. Determination of access for an augmentation is based on the standard access criteria[19].** There are no norms applicable to the size of an augmentation, but augmentations under PRGT-supported programs have been in the range of 15–60 percent of quota (for arrangements approved from 2010-2021), with a few cases well above this range. For GRA-supported programs, augmentation size for this sample ranged from 36 to 216 percent of quota.[20] Staff reports supporting requests for augmentations should explicitly discuss the basis for the augmentation and its size, with reference to the main criteria for determining access, as well as to access norms and limits as applicable.

**21. Augmentations would normally be approved at the time of a scheduled review under the arrangement.**[21] Requests should be supported by a staff assessment and an LOI from the member that describes the nature and size of the problem, the policies being undertaken by the authorities to address its BoP difficulties, and any information relevant to program implementation.

**22. Augmentation under blended arrangements is guided by the GRA and PRGT access policies and specific rules on access under blended arrangements, including policy safeguards**

[16] See IMF (2002), Access Policy in Capital Account Crises (SM/02/246).

[17] Drawing under an existing precautionary SBAs and/or SCFs, potentially combined with an augmentation (e.g., Armenia SBA 2019 and Honduras 2019 SCF/SBA).

[18] See Decision No. 13229-(04/33) and Factsheet: The IMF's Trade Integration Mechanism (TIM).

[19] See also IMF (1983), Criteria for the Amount of Access in Individual Cases (EBS/83/233) (EBS/83/233, Cor. 1)

[20] See 2023 Handbook of IMF Facilities for Low-Income Countries.

[21] When the increase in the underlying balance of payments problems is so acute that the augmentation cannot await the next scheduled review, an augmentation can be requested outside of scheduled reviews. Approval of such augmentations at an ad hoc review outside of scheduled reviews requires an assessment by the Board that the program is on track to achieve its objectives at the time of the augmentation (otherwise access under the RCF can be requested). For more information on the requirements for ad hoc augmentations, please see the PRGT Instrument and consult with 2023 Handbook of IMF Facilities for Low-Income Countries.

**for countries seeking access to Fund financial support leading to high levels of combined access to GRA and PRGT exposure.**[22,23] The mix of GRA and PRGT resources are currently made available to a presumed blender in a 1:2 ratio of PRGT resources to GRA resources, subject to a cap on access to PRGT resources of 145 percent of quota per arrangement and on the PRGT normal annual and cumulative access limits. For augmentations of access under arrangements that would involve blended PRGT and GRA resources, access should be set such that the total financing mix over the full course of the respective arrangement is guided by the specific rules on access under blended arrangements, including that total access (post augmentation) to concessional financing would be one-third of total overall access to Fund resources.[24]

**23. Access could also be reduced rather than augmented.** A reduction of access may be done in cases where the reduction would be appropriate to safeguard Fund resources, or in light of the member's BoP need, and consistent with the Guidelines on Conditionality (such as weak program implementation e.g., on the structural component of the program). In the case of GRA arrangements, since a review under a GRA arrangement is completed based on the most recent PC test date, all accumulated purchases may be made available under a review or combined reviews, subject to the assessment of program implementation, the member's BoP need, and capacity to repay. This means that access amounts may also be reduced in assessing the above-mentioned criteria, provided that understandings are reached between the Fund and the member (including on reducing access which the member needs to request since access may not be unilaterally reduced).[25, 26]

### *Use of Staff Monitored Programs (SMPs) in Addressing Off-Track Programs*

**24. SMPs are informal agreements between national authorities and Fund staff to monitor the implementation of the authorities' economic program**. They help to establish a track record[27] of policy implementation that paves the way toward a new Fund financial arrangement, Fund emergency assistance, or the resumption of an existing arrangement that has gone off track.

[22] See 2023 Handbook of IMF Facilities for Low-Income Countries.

[23] See IMF (2020), Policy Safeguards for Countries Seeking Access to Fund Financial Support that would Lead to High Levels of Combined GRA-PRGT Exposure.

[24] Since 2010 there have been only 2 cases of augmentations in blended arrangements – Cote d'Ivoire (2019) and Honduras (2021), with total augmentations of 55 and 125 percent of quota, respectively. The split between the GRA and PRGT resources remained 2:1 also for the augmentation.

[25] In the PRGT context, as set forth in the PRGT Instrument, commitments of PRGT resources and any disbursement of such resources are subject to the availability of resources in the PRGT, and hence, could result in access reductions in those very specific circumstances (PRGT Instrument, Section II, paragraph 2(g) and paragraph (3)(a)).

[26] Access under a UCT-quality program might also be reduced to comply with normal access limits, as was the case with Ethiopia (2020) to accommodate Fund emergency financing to address urgent needs arising from the COVID-19 pandemic. Other examples of access reduction are Antigua and Barbuda (2012), Mexico (2018), Paraguay (2007) and Poland (2016).

[27] A track record is normally understood to demonstrate a member's commitment and adequate capacity to implement economic policies, including credible data submission, that are consistent with the stated objectives of the member's economic program as assessed by staff, and thereby provide a good basis to progress to a Fund financial arrangement. See Appendix III, 2023 Handbook of IMF Facilities for Low-Income Countries.

The SMPs resemble other Fund-supported programs in form, but they are not required to meet UCT-conditionality standards and, normally, are not endorsed by the Fund's Executive Board, but program monitoring with Board involvement allows for limited Board involvement.[28]

**25. "Program Monitoring with Board Involvement," or "PMBs" allows for limited Executive Board involvement in opining on the robustness of a member's policies to meet their stated objectives under an SMP and monitoring its implementation**. Their use is only available to members that seek to establish or re-establish a track record for a UCT-quality program, and either (i) are benefitting from an ongoing concerted international effort by the international community to provide substantial new financing or debt relief in support of the member's policy program, or (ii) have significant Fund credit outstanding under emergency financing instruments at the time new emergency financing is received.[29] The PMB would continue to be approved by management and monitored by staff for purposes of building or rebuilding a track record but the PMB would allow the Executive Board to opine on whether the policies under the PMB approved by management are robust to meet the program's objectives, and monitor its implementation. This entails Executive Board discussion of the PMB at the time of management's approval of the PMB and in the context of periodic reviews.

**26. The design of an SMP should be consistent with its goal to build a track record of policy implementation**.[30] In doing so, SMP policies should be sufficiently ambitious to provide a good basis for proceeding to a Fund financial arrangement. In terms of SMP modalities, all Fund members are eligible, no BoP need is required, the duration is normally 6-18 months, but would generally be expected to be at least 9 months, there are no restrictions for repeated use, and there are no costs for the Fund members. Use of SMPs to establish a track record to move to, or resume, UFR can support macroeconomic stabilization when UCT-UFR engagement is deemed to risky or arrears to the Fund (or other multilateral or official creditors) prevent UFR, or in circumstances in which the member's debt is assessed to be unsustainable. In particular, SMPs would typically be used to build track records when:

---

[28] Only for establishing a track record under the HIPC Initiative can an SMP be endorsed by the Board. For such a case, staff must make an assessment, which must be supported by the Board, that macroeconomic and structural reform policies under the SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches or under the ECF ("SMPs of UCT-quality policies"). Reaching the HIPC decision point using an SMP of UCT-quality policies requires an assessment by the Board that the member's performance under the SMP has been satisfactory for a sufficient period of time (in practice, a minimum of six months) since the Board's initial determination of UCT-quality policy standards. The Board's agreement with the staff assessment that the macroeconomic and structural policies under a given SMP meet the UCT quality standard is recorded in a Summing Up or the Chairman's closing remarks of the Board discussion. For further information, including on SMPs of UCT quality policies in the context of the HIPC Initiative, see Staff Monitored Programs – Updated Operational Guidance Note (IMF, 2022).

[29] See Proposal for a Staff-Monitored Program with Executive Board Involvement (Policy Paper No. 2022/041, September 19, 2022).

[30] See Staff Monitored Programs – Updated Operational Guidance Note (MF, 2022).

- Weak capacity, whether due to structural reasons (e.g., limited institutional capacity, domestic fragility or exogenous shocks (e.g., natural disasters) and conflict etc.; [31]
- No prior or limited experience with and/or commitment for, needed policy reforms supported by UCT-quality program;
- Fund-supported programs that have gone off-track, uncertainty in achieving the stated objectives is elevated, and/or the member needs to secure critical support for the program;[32]
- Absence of, or insufficient financing assurances, including where debt operations are needed; [33]
- Concerns on adequate safeguards to Fund resources, including those arising from arrears to the Fund and/or risks to governance weaknesses.

**27. IMF policies covering debt sustainability, financing assurances, and other safeguards do not fully apply to SMPs.**[34] Most importantly, ex-ante debt sustainability and financing assurances are not needed in an SMP. Thus, an SMP can proceed even when debt is assessed to be unsustainable. In addition, with the exception of Board-endorsed UCT-quality SMPs, the Fund's debt limits policy would not necessarily apply to an SMP. However, in cases of elevated debt vulnerabilities, including ex-ante unsustainable cases, measures to restore debt sustainability and/or application of the debt limits policy could be beneficial for a member in establishing a track record and transitioning to UFR. Financing gaps need not be closed during an SMP (and the BoP need typically remains after an SMP which is addressed under a follow-up request for UFR) and the Fund's arrears policies do not apply. Finally, the Fund's UFR misreporting guidelines for non-complying purchases or disbursements do not apply, but credibility of data is critical for monitoring and should be upheld, including for its contribution to assessing a track record toward UFR. At the same time, credible reporting data to allow appropriate staff monitoring is a necessary condition for UCT-quality engagement, and hence, misreporting would undermine establishing a track record.

[31] See Strategy for Fragile and Conflict-Affected States (FCS) (IMF, 2022) for a discussion on use of SMP in FCS.

[32] While an SMP is the preferred option, it is also possible in some cases to rely on more informal track records to bring a program back on track, when near-term corrective actions are expected to meet earlier program objectives, and there are adequate assurances that the authorities have the capacity and commitment to implement the program.

[33] Absence of financing assurances includes situations when multilateral and donor support is insufficient to meet the program financing assurances for a UCT-quality program or when the member has external arrears to official creditors and not yet reached understandings on arrears clearance. An SMP could help demonstrate that the policies are strengthened in a manner that would help secure financing assurance as a precondition for a UCT-quality program.

[34] See Staff Monitored Programs – Updated Operational Guidance Note (IMF, 2022).

***For more information:***

*Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

*Staff-Monitored Programs – Updated Operational Guidance Note* (IMF, 2022)

*Factsheet on Staff Monitored Programs*

## C. Phasing Considerations

**28. The Fund normally phases the provision of resources evenly throughout the period of an arrangement to ensure that adequate support to the adjustment effort is available at all points of the implementation of the program**.[35] Purchases (or disbursements, with respect to the PRGT) can be subject to an observance of performance criteria, the completion of a program review, or both. Normally, purchase (or disbursement) dates and test dates for performance criteria are expected to be distributed as evenly as possible over the duration of the arrangement. Under GRA arrangements, there would be a minimum of two purchases (in addition to the initial purchase) and two sets of corresponding performance criteria during each 12-month period, but more frequent monitoring may be needed for members facing an actual BoP crisis that may involve fast-moving developments or an uncertain external economic environment.[36] The frequency of purchases/disbursements may also be affected by the length of lags in the reporting of data related to performance criteria or to align with a member's budgetary cycles.[37] Lags between the reporting of data relating to performance criteria should be minimized to preserve the reliability of data.[38]

**29. The choice between even or uneven phasing of purchases/disbursements depends on the BoP need and the path of adjustment**.[39] This would take into account a member's actual or potential need for resources from the Fund, the likely timing of the member's BoP need, the member's policies, the incentives for the authorities to maintain the program on track, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining a reasonable level of resources. These choices are made at the time of approval on a case-by-case basis. Normally, since reform implementation safeguards the use of Fund resources, a concentration of adjustment at the beginning of an arrangement may justify frontloading of

[35] See IMF (1980), Enlarged Access to Fund Resources (EBS/80/262).

[36] The PRGT Instrument has a similar requirement. The Instrument states as follows: "Disbursements shall be phased at regular intervals no more than six months apart (one upon approval and at normally regular intervals thereafter) with performance criteria applicable specifically to each disbursement and appropriate monitoring of key financial variables in the form of quantitative benchmarks and structural benchmarks for critical structural reforms."

[37] See 2023 Handbook of IMF Facilities for Low-Income Countries.

[38] All members are expected to limit such reporting lags to two months. Where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them (SM/09/69, Sup. 2, 03/24/09).

[39] GRA Lending Toolkit and Conditionality, adopted at Executive Board Meeting SM/09/29 (3/24/09).

purchases or disbursements.[40] A significant degree of front-loading has been applied, in a number of programs post-pandemic (e.g., Afghanistan (2020), Niger (2021), Seychelles (2021), Argentina (2022)), or arrangements approved following the clearance of overdue obligations to the Fund as part of a broader arrears clearance strategy (see Liberia (2008) and Somalia (2020)). However, it may be more appropriate to delay some fiscal adjustment and structural reforms (hence frontload use of Fund resources) in the context of a truly exogenous shock, like a natural or health disaster or sharp refugee inflows, provided there are adequate safeguards of Fund resources in place, including risk sharing with other creditors. Other things being equal, limited debt vulnerabilities, burden-sharing with other external partners, and greater confidence that the program will be successfully implemented would justify more frontloading.

**30. Floating tranches can be used** when the Fund judges that the member will need to implement a particular structural measure or meet a particular performance target during the program period but not necessarily by a specific date.[41] This flexibility in timing is geared towards promoting national ownership. Floating tranches are especially useful where the authorities are committed to a measure but there is some unavoidable uncertainty about the timing of the measure or where an upfront commitment on specific timing is for some reason not desirable – for example, cannot pin down the time needed to garner support, build capacity, and adopt legislation and regulations.[42] In this case, the Fund may specify that the purchase or disbursement of Fund resources be made available whenever the measure is implemented, or the target observed. These floating tranches are expected to apply primarily to structural reform benchmarks that are included because of their importance for medium-term external sustainability and growth but cannot be linked to measures critical for immediate external stabilization, which should rather be linked to fixed tranches. To avoid over- or underfinancing of the program, the measures should create a short-term BoP need at the time of implementation but must also strengthen the external position over the medium term, so as to warrant the release of additional Fund resources. The size of the floating tranche should be calibrated accordingly and should represent the minority of the total access under the program. The PN proposing a floating tranche should clarify (i) how the conditions for its use have been met and (ii) the practical modalities of the floating tranche, including how the tranche would fit with the regular review schedule.[43]

[40] Phasing may also be subject to facility specific rules. Phasing in PLL arrangements varies depending on the duration of the arrangement and the nature of the member's balance of payment need at the time of approval of the arrangement.

[41] Decision No. 12864-(02/102) September 25, 2002, as amended by Decision No. 13814-(06/98), November 15, 2006.

[42] The use of floating tranches is particularly likely to be appropriate in ECF arrangements, given their greater orientation toward medium-term growth and poverty reduction and FCS due to greater uncertainties related to the possible timing of implementation.

[43] The measures and access associated with FT are decided at approval of arrangement but can also be introduced during the review as a part of the request for modification of access/phasing. At the time of approval, the Board would approve the commitment of the FT to be released upon implementation of the measure, which is then executed upon Management decision based on staff recommendation. The floating tranche is only available while program is on track.

***For more information:***

*Selected Decisions and Selected Documents of the International Monetary Fund: [Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guideline](#).*

*[2002 Guidelines on Conditionality](#)* (IMF, 2002)

## D. Misreporting

**31. Reliable and timely information is critical for all aspects of the Fund's work, whether in surveillance or the use of Fund resources (UFR)**. The provision of timely and accurate information to the Fund is the responsibility of the member. The Fund's legal framework addresses the issue of misreporting of information. It rests primarily on two pillars: (i) Article VIII, Section 5, which applies to all members, and which contains general provisions on the furnishing of information by members to the Fund with some qualifications (e.g., relating to capacity and confidentiality), and (ii) the Guidelines on Misreporting and Noncomplying Purchases in the General Resources Account; and (iii) misreporting under the Poverty Reduction and Growth Trust.

**32. In the context of the use of Fund resources, the misreporting policy (MP) aims to prevent the approval of purchases/disbursements on the basis of inaccurate information (i.e., noncomplying purchases/disbursements under Fund-supported programs)**. A noncomplying purchase/disbursement occurs where the purchase/disbursement was permitted because, on the basis of the information available to it at the time, the Fund was satisfied that all performance criteria or other conditions applicable to the purchase under the terms of the relevant decision had been observed, but this information later proved to be incorrect. In practice, misreporting applies to the data and information associated with PCs and PAs under both GRA and PRGT arrangements as well as quantitative targets and PAs under PCI.[44] Broadly speaking, whenever misreporting occurs in the context of the use of the Fund's general resources (GRA), Article VIII, Section 5 is also implicated.

**33. When there is evidence of a potential noncomplying purchase/disbursement, the MD shall promptly notify the member**.[45] After consultation with the member, if the non-observance is confirmed, the MD shall promptly notify the member and submit a report to the Board with recommendations. The Board may decide either (a) that the member shall be expected to repay the disbursed amount within 30 days, or (b) that the non-observance will be waived. Waivers will normally be granted only when the deviation from the relevant PC or other condition was minor, or temporary, or if the member had adopted additional measures appropriate to achieve the objectives supported by the relevant decision on the disbursement). Relevant information on the misreporting must then be published, with a review by the Board of the text.

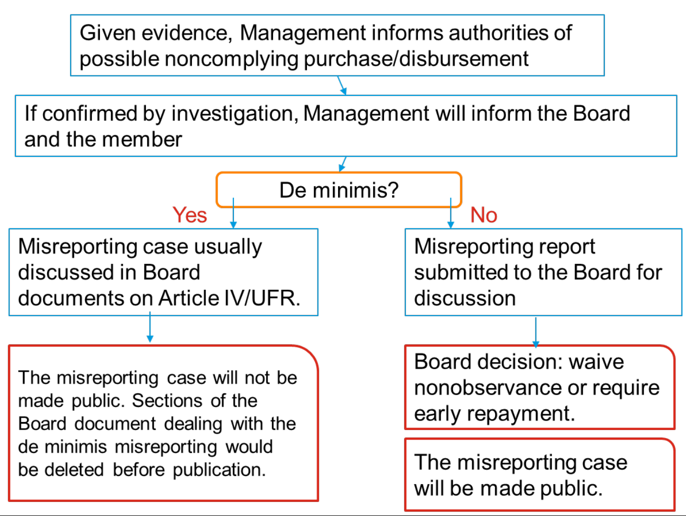
[44] MP does not apply to precautionary arrangements that have no PCs and PAs.

[45] The MP applies to any case where the noncomplying purchase/disbursement was made no more than four years prior to the date on which the Managing Director informed the member; or the approval of PCI or a review completed within the preceding three years.

**34. An abridged and simplified misreporting framework applies to the non-disbursing instrument—the PCI.**[46] A tailored misreporting framework applies to the PCI. The PCI does not entail the use of Fund resources, and the Fund's misreporting framework has not been applied to targets that are not binding (in the sense that missing the targets would not prevent completion of a review absent a Board waiver). However, the credibility of the data is critical for the monitoring and signaling objectives of the program. The Board's consideration of the misreporting would normally take place at the same time as the next scheduled PCI review, based on a combined staff report. The Board shall reassess program performance in the light of that determination including the revised information associated with the misreporting. Such a reassessment of past program performance in the light of a misreporting will not lead to the Board retroactively reversing its decision completing a review, which subsequently had become associated with a misreporting.

**35. In 2006, the Fund introduced the *de minimis* procedure to the misreporting framework.** In de minimis cases, deviations from a performance criterion or other condition are so small as to be trivial with no impact on the assessment of program performance. In instances where management judges that misreporting was de minimis (subject to Board oversight), all the notifications to the member could be made by the Area Department; the Managing Director's findings and recommendations would, wherever possible, be presented to the Board in other documents (e.g., an Article IV or use of Fund resources staff report) and addressed in the context of a Board meeting on that other document, rather than in a separate Board document and meeting; a waiver shall be granted; and cases of noncomplying purchases and disbursements arising from de minimis misreporting would not be made public.

**Decision Tree of Regular Misreporting Policy**




[46] See also the relevant decisions in the Selected Decisions for the PCI.

**For more information:**

Strengthening the Effectiveness of Article VIII, Section 5, Decision No. 13183-(04/10), January 30, 2004

Misreporting and Noncomplying Purchases in the General Resources Account, Guidelines on Corrective Action, Decision No. 7842-(84/165), adopted November 16, 1984, as amended; and Instrument to Establish the Poverty Reduction and Growth Trust, annexed to Decision No. 8759-(87/l76) ESAF, adopted December 18, 1987, as amended.

*Making the Misreporting Policies Less Onerous in De Minimis Cases* (IMF, 2006)

*Policy Coordination Instrument—Operational Guidance Note* (IMF, 2021)

## E. Transparency Policy

**36. The IMF's Transparency Policy aims to strengthen the Fund's effectiveness by providing the public with access to Fund documents**. The Fund's publication regime for country documents is generally "voluntary but presumed[47]," but in UFR cases the presumption of consent is stronger. As such, unless a member explicitly consents to publication of the relevant staff report, management will generally not recommend that the Board approve a request for access to resources.[48] Staff should discuss the publication process with the authorities during the mission and at the latest by the Board date. This is to ensure that the authorities understand the process, that there are no misunderstandings and that publication ensues as quickly as possible after the Board date.[49] The member's publication intentions will be recorded on the cover memorandum when the paper is issued to the Board.

**37. To protect the integrity of Fund documents, there are strict rules in place for modifying a document once it has been issued to the Board**. All modifications except those certified by the head(s) of the authoring department(s) as bona fide administrative errors are guided by the rules under the Transparency Policy. These modifications are limited to corrections to the original document (and thus to the document to be published) and deletions (to the document to be published, but not affecting the original). Primary responsibility for handling corrections and deletions lies with the authoring department. SPR clearance via the online Transparency Portal is

[47] "Voluntary" means that the publication of country documents is subject to the consent of the member concerned.

[48] Members that request access to Fund resources or support under a PCI are also expected to indicate, before circulation to the Board, that they consent to publication of related staff reports.

[49] The Transparency Policy Decision sets out that Fund will "strive to disclose documents and information on a timely basis unless strong and specific reason argue against such disclosure." To support implementation of the principle, the Decision defines prompt publication. It states that the Fund will aim to publish documents subject to the Decision no later than 13 calendar days after the Executive Board meeting, informal Board session, or adoption of an LOT decision (the "Board date"), or 28 days after the document has been issued to the Executive Board, whichever is later. Please see the Updated Guidance Note on the Fund's Transparency Policy for further details.

needed for certain categories of corrections and deletions.[50] For corrections with significant implications for the substance of the document, staff must present an explanation of their rationale and a discussion of their implications in the memorandum to be circulated to the Board.[51] Corrections post-Board are limited to the following cases: i) the correction must be brought to the attention of the Board before conclusion of the Board's consideration, which in practice is a statement by the senior SPR reviewer during the Board meeting, or ii) where the failure to correct would undermine the overall value of the publication.

***For more information:***

*Updated Guidance Note on the Fund's Transparency Policy* (IMF, 2014)

Factsheet on Transparency at the IMF

## F. Longer-Term Program Engagement (LTPE)—Ex Post Peer Reviewed Assessments

**38. A systematic process of ex post assessments helps ensure that prolonged use of Fund resources does not reflect failures in the design and implementation of programs**. Members subject to an ex post peer reviewed assessment (PRA) are those with LTPE, generally defined as having in place UCT GRA or PRGT arrangements, or a blend of both, for at least 7 of the preceding 10 years.[52] A PRA is required if *all* of the following conditions are met: (i) the member has informed staff that a successor arrangement (drawing or precautionary) or a PCI is being contemplated; (ii) the member has LTPE when it informs staff of its intent to engage in a successor arrangement or the member is expected to meet the LTPE definition at the time of the Board consideration of the request for the new arrangement or PSI; and (iii) an ex-post assessment or PRA has not been prepared in the five-year period preceding the time of Board consideration of the new Fund arrangement or PSI.[53] A succinct and focused PRA would aim to assess the appropriateness of the Fund's overall approach and the soundness of its advice in previous Fund arrangements in order to, for example, inform the design of successor arrangements. The draft PRA is peer-reviewed by

[50] Those include corrections with significant implications as described in paragraph 23 of the Updated Guidance Note on the Fund's Transparency Policy (IMF, 2014) and for corrections where there is room for debate as to whether they satisfy the criteria in paragraph 19 of the same note.

[51] Corrections or deletions are expected to be circulated to the Board at least two business days before the Board meeting and should be received in SEC by noon the business day prior to that two-day window [(see timeline in the updated guidance note)].

[52] Arrangements that remain undrawn shall not count. However, if a member draws upon an arrangement that had been considered precautionary at the time of the approval (e.g., FCL, PLL, SBA/SCF), the entire length of the arrangement will also count toward LTPE for the purpose of the PRA. An outright disbursement under the RFI or RCFFI, and the usage of PSI, does not count towards LTPE. For canceled arrangements, only the time until their cancellation is counted (See Staff Guidance Note For the Conduct of Ex Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement, Paragraph 2). While PSI was eliminated in Oct 2023, the references to PSI in the PRA policy are maintained here, for completeness.

[53] Staff Guidance Note for the Conduct of Ex Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement (IMF, 2016, Paragraphs 1 and 2).

another country team and then subsequently by departments as part of the relevant draft policy note. The staff report supporting the request for an arrangement or PSI should integrate the lessons from the PRA.[54]

***For more information:***

2002 IEO Evaluation of the Prolonged Use of Fund Resources (SM/02/287) recommended strengthening scrutiny of countries engaged in Fund-supported programs over a longer-term period. See discussion in Conclusions of the Task Force on Prolonged Use of Fund Resources (IMF, 2003).

*Staff Guidance Note for the Conduct of Ex Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement* (IMF, 2016)

## G. Emergency Financing Mechanism

**39. The IMF's Emergency Financing Mechanism (EFM) was set up in 1995 to strengthen the ability of the Fund to respond rapidly in support of members facing a crisis in their external accounts and seeking Fund assistance**. Since then, it has been used on several occasions—in 1997 during the Asian financial crisis for the Philippines, Thailand, Indonesia, and Korea; in 2001 for Turkey; during the Global Financial Crisis for Latvia, Iceland, Ukraine, Hungary, Ireland, Greece, and Georgia; and most recently in 2018 for Argentina.

**40. The EFM enables the IMF's Executive Board to act more quickly than for normal IMF's financing support**. It is an emergency procedure rather than a financing mechanism and is not necessarily linked to exceptional access or supplementary financing. Emergency procedures are expected to be used only in rare circumstances that represented or threatened to give rise to a crisis in a member's external accounts requiring immediate response from the Fund. Identification of such an emergency is based on an initial judgment by management in consultation with the Board that (i) the member is faced with a truly exceptional situation threatening its financial stability; and (ii) that a rapid Fund response in support of strong policies is needed to forestall or to contain significant damage to the country itself or to mitigate spillovers to the international monetary system.[55] The conditions for activation of emergency procedures would include the readiness of the member to engage in accelerated negotiations with the Fund and prospects for early agreement and implementation of measures sufficiently strong to address the problem. Prior actions normally would be expected. The member's past cooperation with the Fund—notably its record of reporting and responding to the Fund's policy advice in the context of regular consultations and continuing

[54] Staff Guidance Note for the Conduct of Ex Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement (IMF, 2016, Paragraphs 5 and 6).

[55] The EFM only applies to arrangements, with the exception of the FCL and the SLL. Decision No. 14283-(09/29), March 24, 2009. as amended by Decision Nos. 14714-(10/83), August 30, 2010, 15593-(14/46), May 21, 2014, and 16286-(17/98), December 6, 2017, Paragraph 6(a)(v)) and Decision A of Decision No. 16747-(20/43), April 15, 2020, Paragraph 9.

surveillance —would have a strong bearing on the speed with which the Fund itself could assess the situation and agree on necessary corrective measures.[56]

- **Under the procedure, IMF management immediately informs the Board of the intention to activate emergency procedures and explains the reasons**. During program discussions with the member, the Executive Board is briefed regularly and consultations with key creditors are initiated (where support from them is likely to be important).

    - Initiation of the procedure. Management should inform the Board immediately (under strict confidentiality) of (i) the intention to activate emergency procedures; (ii) the nature of the emergency and the initial outline of the planned responses by the member and the Fund; and (iii) the likely timetable for Board discussion of a proposed arrangement. A short-written report describing the member's current economic situation should be circulated to the Board as soon as feasible.

    - Program negotiations with the member. Staff should keep the Board informed through regular briefings on economic and financial developments, the progress of negotiations, the likely key parameters of the program (including the level and phasing of access), the likely impact on the Fund's liquidity and the possible need to activate borrowing arrangements, and any changes in the initially envisaged timetable for Board discussion of the arrangement. Where support from other creditors may be needed, consultations with key creditors would be initiated at the outset of the emergency.

    - Document timeline. After a staff-level agreement is reached on a program, staff would aim to circulate documents as soon as possible within, say, five days to the Board, which would be prepared to consider the request for an arrangement—within 48 to 72 hours after circulation. Decisions regarding key parameters would be taken in the context of the Board's consideration of the arrangement in accordance with the Fund's existing rules and practices.

    - Review. After approval of the arrangement, staff should maintain a very close monitoring, continuing the assessment of the effectiveness of the member's policy response, and regularly briefing the Board until the emergency is definitively resolved. In most cases, it could be expected that the full review of the initial policy response and the reaction of markets to these policies would be conducted within one to two months of the approval of the arrangement, with the aim of allowing modifications to policies as necessary considering the evolving situation.[57]

[56] Summing Up by the Chairman—Emergency Financing Mechanism, Executive Board Meeting 95/85, September 12, 1995.

[57] Although not a legal obligation, the member is expected to make early repurchase of the resources made available under emergency procedures, if its crisis overcome quickly. Summing Up by the Chairman—Emergency Financing Mechanism, Executive Board Meeting 95/85, September 12, 1995.

***For more information:***

*Streamlining Procedures for Board Consideration of the Fund's Emergency Financing During Circumstances Involving a Pandemic*, Box 1, IMF Policy Paper, 2020

*Selected Decisions and Selected Documents of the International Monetary Fund, Forty-Second Issue—Summing Up by the Chairman—Emergency Financing Mechanism, Executive Board Meeting 95/85, September 12, 1995*

## H. Article IV Cycle

**41. In principle, Article IV consultations with members take place annually.** Article IV consultations that take place on the standard 12-month cycle will be subject to a grace period of 3 months and, accordingly, will be expected to be completed within 15 months of the date of the completion of the most recent consultation. Some members may be put on a longer cycle of up to 24 months ("extended cycle"), but only upon their consent and provided they are not of systemic or regional importance, are not perceived to be at some risk because of policy imbalances or particular exogenous threats or facing pressing policy issues of broad interest, and do not have outstanding credit to the Fund above 145 percent of quota.

**42. Article IV consultations for countries with a Fund arrangement (except as noted below) or Policy Coordination Instrument (PCI), are automatically placed on a 24-month cycle.**[58] Members that are granted a Flexible Credit Line (FCL), a Precautionary Liquidity Line (PLL), or a Short-Term Liquidity Line (SLL) are placed on a 12-month consultation cycle.[59] The consultation cycle will be shortened where a program review under an arrangement for the member is not completed by the date for completion specified in the arrangement (i.e., the availability date).[60]

[58] A member that has completed an arrangement (other than an FCL or PLL arrangement) by drawing all amounts, or a PCI by completing all reviews, shall remain on the same consultation cycle (i.e., determined pursuant to paragraph 2(a) of Decision No. 14747, as amended), unless at the time of the final review under the arrangement, or the PCI, the Executive Board determines, based on the criteria for extended consultation cycles, that a different cycle shall apply. Where the arrangement, or PCI is cancelled by the member, or the arrangement expires with undrawn amounts or the PCI expires with uncompleted reviews or is terminated, the member concerned shall remain on the same consultation cycle (i.e., determined pursuant to paragraph 2(a) of Decision No. 14747, as amended), unless the Executive Board determines, based on the criteria for extended consultation cycles, that a different cycle will apply.

[59] If, prior to the approval of the FCL, PLL, or SLL arrangement, the member was on an extended cycle, the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date of approval of the arrangement, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation. If an FCL or a PLL arrangement is completed by drawing all amounts, expires with undrawn amounts, or is cancelled by the member, that member will remain on the standard 12-month cycle, unless the Executive Board determines that a different cycle will apply.

[60] In these circumstances the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date specified in the arrangement for completion of the review, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation, provided, however, that, where the relevant program review is completed before the later of the dates specified in (i) and (ii) above, the next Article IV consultation will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member

**43. An Article IV consultation is deemed excessively delayed when it has been delayed by more than 12 months beyond its expected date of completion (including any grace period)**.[61] Whenever an Article IV consultation for a member has not been concluded within 12 months of the expected deadline for conclusion, and staff discussions with the member have not been completed, the Managing Director shall notify the member in writing of the delay.[62] Whenever an Article IV consultation for a member has not been concluded within 18 months of the expected deadline for conclusion, staff is required, except in certain circumstances, to informally brief the Executive Directors on the economic developments and policies of the member.[63] Such briefings are required every 12 months thereafter.

***For more information:***

Decision No. 14747-(10/96), September 28, 2010, as amended by Decision Nos. 15017-(11/112), November 21, 2011, and 15945-(16/14), February 17, 2016, Selected Decisions and Selected Documents of the IMF, Thirty-Ninth Issue—Article IV Consultation Cycles

*Proposed Steps to Address Excessive Delays in the Completion of Article IV Consultations (Decision No. (15106-12/21 as amended)*

*2022 Guidance Note for Surveillance under Article IV Consultations* (IMF, 2022)

[61] Consultation cycles other than the 12-month cycle do not have a grace period.

[62] The notification shall be calibrated to the circumstances of the member and, where appropriate, shall remind the member of its obligation to consult. Subsequent notifications shall be sent to the member at 12-month intervals as long as the Article IV consultation or mandatory stability assessment has not been concluded and staff discussions with the member have not been completed. If the Managing Director determines that: (i) the Article IV consultation has been delayed because of exceptional circumstances, such as extreme natural disaster, extreme civil unrest or war, or (ii) there is uncertainty as to the views of the international community regarding the recognition of an administration in effective control of the country, the Managing Director may postpone sending the notification of the delay to the relevant member until the Managing Director decides that the situation leading to the postponement no longer exists. The Managing Director will promptly inform the Executive Board of any decision to postpone or resume sending notifications to a member.

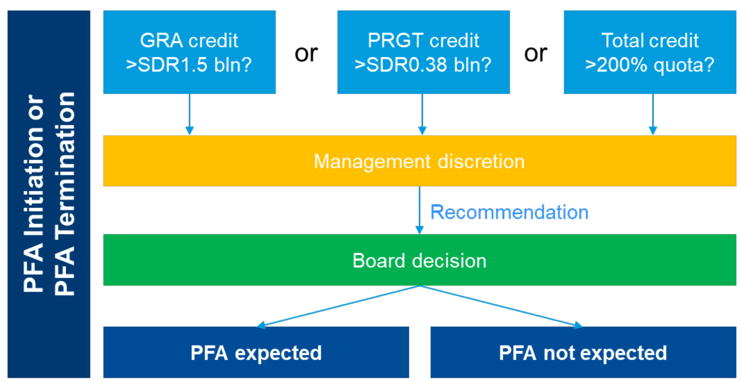
[63] No such briefing shall be required to the extent that (i) staff discussions with the member for the Article IV consultation or mandatory financial stability assessment have been completed, or (ii) Executive Directors have, within the previous twelve months, been briefed on the member's economic developments and policies or on its financial sector, as applicable, in another context, or (iii) the Managing Director, in exceptional circumstances, determines that the available information is so inadequate as to seriously undermine the ability of Fund staff to conduct a meaningful analysis of the member's economic developments and policies or of its financial sector, as applicable.

## I. Post Financing Assessment[64]

**44. Post Financing Assessment (PFA) is an important part of the Fund's safeguards architecture.** It focuses on members that have substantial outstanding Fund credit but are no longer in a program relationship with the Fund, which might pose risks to the Fund's balance sheets either because of the magnitude of credit outstanding, or the scale of risks facing the member. The goal of PFA is to identify risks to such members' medium-term viability, provide an early warning on risks to the Fund's balance sheets, and deliver policy advice that will assist the members to repay the Fund.

**45. A decision to initiate PFA is normally taken at the same time as the completion of the final program review, but can also be brought to the Board later, on a standalone basis.**[65] The Executive Board decides whether PFA should be initiated for a particular member based on a staff paper and recommendation by the Managing Director (see figure). PFA is expected for members with large absolute amounts of credit outstanding or outstanding credit above 200 percent of quota. To ensure that the largest exposure risks to the balance sheets of the GRA or PRGT are monitored, PFA is expected when any one of three conditions is fulfilled: (i) credit outstanding to the GRA exceeds SDR 1.5 billion, or (ii) credit outstanding to the PRGT exceeds SDR 0.38 billion, or (iii) the member's total credit outstanding (to the GRA and/or the PRGT) exceeds 200 percent of its quota. PFA might not be warranted if a successor arrangement, PCI or SMP is expected within six months of the end of a Fund arrangement. It might also not be warranted when a country has strong economic fu ndamentals and sound policy frameworks such that it does not pose material risk to the Fund's balance

**PFA Decision—Applicable Thresholds**




[64] PFA (formerly Post Program Monitoring (PPM)) was established in the November 2000 Facilities Review. In 2005 it was extended to PRGT resources and in 2010 a Guidance Note was published. The 2016 Review of PPM established absolute-size thresholds in addition to raising the quota-based threshold to 200 percent of quota (following the quota increase) and reduced the frequency of PPM to once in any 12-month period. The guidance note was published in 2017. In 2021, temporary modifications were introduced to the PPM in the context of the prevailing Covid-19 pandemic, and the policy was also renamed Post Financing Assessment to appropriately and better reflect the policy's focus.

[65] Examples for PFA initiation at the final program review include Albania and Angola. Standalone cases include Malawi and Ukraine, which have been brought to the Board by Lapse of Time and were not published. PFA has also been initiated as part of an Article IV report (e.g., Greece) or an emergency financing request (e.g., Albania). There have also been cases of group initiations, usually at the time of changes to the policy (e.g., 2016 proposed decision on countries).

sheets.[66] Members with arrears to the Fund would also not be subject to PFA. If PFA is not initiated at the end of a Fund arrangement, staff should reconsider the case for PFA periodically, and at least at six-month intervals. PFA does not only apply to Fund-supported programs, but also to outright purchases or disbursements under emergency financing, that is RFI, RCF or a blend of RFI and RCF.

**46. PFA is conducted annually, with a Board discussion of the first PFA staff report expected within six months of the initiation of PFA unless an Article IV is scheduled to take place earlier.**[67] It is generally desirable for the Fund's first formal interaction with the authorities after the end of a program to be through an Article IV consultation, given its more comprehensive coverage. If, however, the Article IV consultation is not expected for more than six months after the end of the program, then the PFA discussions should be scheduled first. Staff should endeavor to sequence subsequent PFA missions roughly mid-way between annual Article IV consultations, so that two staff reports are presented to the Board every 12-months. Publication of PFA reports is voluntary but presumed, in accordance with the Transparency Policy.

**47. PFA discussions and staff reports should be forward looking, risk-based, tailored to country circumstances and focused.** The focus is on macroeconomic, financial, and structural policies based on a concept—capacity to repay—that is essential for safeguards. A member subject to PFA will be expected to discuss with staff its policies, including a quantified macroeconomic framework and the reasons for changes in the economic outlook. Staff will then report to the Board on the member's policies, the consistency of the macroeconomic framework with medium-term viability, and the implications for the member's capacity to repay including in risk scenarios. Minimum requirements are listed in Annex Box 1.

**48. PFA is terminated if either outstanding credit falls below all applicable thresholds (unless there is a Board decision recommending that PFA be extended regardless), a new program is approved, or the Board accepts a proposal from management for early termination.** PFA terminates automatically when a new Fund-supported program is approved, or the member repays all its credit outstanding to the Fund. It also terminates when credit falls below all applicable thresholds unless there is a Board decision recommending that PFA be extended. The Managing Director can also propose to the Board that PPM be terminated early if it is no longer warranted, for instance because the member's circumstances (in particular, the strength of its policies and its external position) have sufficiently improved that its capacity to repay is assured both in the baseline and plausible shock scenarios.

[66] To date, there has only been one case considered to meet this bar; Pakistan following the 2001-04 EFF

[67] Examples of PFA reports include Albania, Cyprus and Greece.

**Annex Box 1. Minimum Requirements for PFA Staff Reports**

- A discussion of the economic and financial context,
- A discussion of the near-term and medium-term outlook including the developments that staff see as most relevant for capacity to repay.
- In-depth discussion of capacity to repay both in the baseline and under key risk scenarios.
- Risk assessment matrix, showing the impact of risks on the member's capacity to repay.
- Policy discussions motivated by capacity to repay considerations.
- Staff Appraisal
- Presumption of quantitative analysis to support staff views on the risks to capacity to repay (except where data constraints are binding) such as either alternative downside scenarios for one or more risks, or an updated SRDSA (for market access countries), or the staff's own tools.

***For more information:***

PFA factsheet

*Post Program Monitoring During the Pandemic: Proposal For Temporary Streamlining of Procedures and Renaming of the Policy* (IMF, 2021)

*Guidance Note on Post-Program Monitoring* (IMF, 2017)

*Strengthening the Framework for Post Program Monitoring* (IMF. 2017)

## J. Prior Actions

**49. A member may be expected to adopt measures prior to the Fund's approval of an arrangement, completion of a review or granting of a waiver with respect to a performance criterion when it is critical for the successful implementation of a Fund-supported program that such actions be taken upfront**. These measures, approved by management, are specified as "prior actions".[68] . Examples of prior actions in practice include measures requiring the elimination of price controls and adoption of a budget consistent with the agreed fiscal framework. As with other forms of conditionality, prior actions are to be applied parsimoniously and must be justified in terms of their criticality to the achievement of the goals of the program. Prior actions are often used prominently in cases of countries with weak track records of implementation as they play a useful role by ensuring that certain critical measures are implemented upfront. Though prior actions may help to ensure that a program will have the necessary foundation for success, national ownership of sound economic and financial policies and an adequate administrative capacity remain crucial for successful implementation of a Fund-supported program.[69]

[68] Guidelines on Conditionality, paragraph 11(a). Prior actions can also be set in the context of emergency financing (RCF/ RFI).

[69] Guidelines on Conditionality, paragraph 3.

**50. Prior actions are formal conditions on the use of Fund resources**. As such, any decision on the use of Fund resources is conditional upon the accuracy of information provided by the member regarding implementation of prior actions. If it is later established that such information was inaccurate, the relevant purchases/disbursements could be subject to the misreporting framework (see discussion on misreporting). This makes it even more important that prior actions be specified with sufficient clarity in order to ensure that there is no misunderstanding between the Fund and the authorities regarding what is required of the authorities. Prior actions that are not completed prior to the circulation of the program documents to the Board must be clearly delineated in the LOI. Early engagement with country authorities, and the relevant Fund departments, is crucial. The historical average number of prior actions by program in the year of approval is about 2, but the figure tends to be higher in PRGT programs, possibly reflecting weaker track records.

**51. Prior actions must be carried out before the related Board discussion**. The Board has established a normal practice that all prior actions must be carried out at least five working days before the Board discussion to which they relate, in order to enable verification that these measures were appropriately implemented (see (BUFF/00/129)).

**52. Concerns about sensitivity with regards to prior actions should be addressed under the Side Letter Policy to the extent possible**. Under this policy, the use of side letters (see Annex N) will normally be limited to cases in which the premature release of the information would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[70] In such cases, staff should flag in the Policy Note[71] their intention to discuss the use of a side letter to address the authorities' concerns (see below entry on side letters). Any objection to the use of a side letter by the authorities should be brought to the attention of management as soon as possible. "Informal" prior actions—unofficial understandings on policy measures that are not presented in program documents—are not allowed.

## K. Exceptional Access Policies

### Exceptional Access Under the General Resources Account (GRA)

**53. Exceptional access (EA) under the GRA is access that exceeds the normal annual access limit of 145 percent of quota or cumulative access limit of 435 percent of quota, although these limits were temporarily increased to 200 and 600 percent of quota, respectively,**

[70] See Side Letter Policy, Paragraph 5.

[71] Note however that the existence and content of side letters is to be treated with the utmost confidentiality by management, Fund staff, and Executive Directors.

**through March 2024**.[72][73] Requests for EA to GRA resources are not subject to hard caps[74] and will only be approved if the Board is satisfied that the following four substantive criteria are met:

1) The member is experiencing or has the potential to experience exceptional balance of payments (BoP) pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
2) A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term.
    - Where the member's debt is assessed to be unsustainable *ex ante*, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability.
    - Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.
    - For purposes of this criterion, financing provided from sources other than the Fund may include, *inter alia*, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any relevant contingent liabilities, including those potentially arising from private external indebtedness.
3) The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.
4) The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

**54. Exceptional access to GRA resources triggers procedural requirements aimed at reinforcing safeguards and enhancing accountability**. These include:[75]

- *Systematic Board consultations on program negotiations*, notably through confidential informal briefings. The Board is provided with a short note outlining: (i) the tentative diagnosis of the problem; (ii) the outlines of the needed measures; (iii) the basis for judgment that EA may be necessary and appropriate, with a preliminary evaluation of the four substantive criteria; and (iv)

[72] See Temporary Modifications to the Fund's Annual and Cumulative Access Limits (IMF, 2023).

[73] Note that there is a cumulative cap of 600 percent of quota, net of scheduled purchases, on access under all PLL arrangements w.

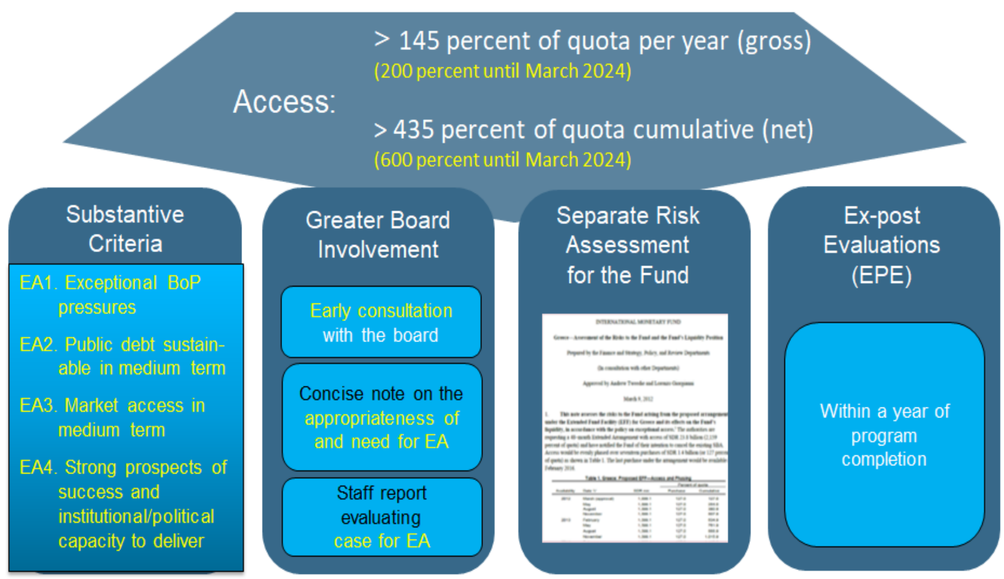
[74] With the exception of the PLL and the RFI.

[75] See Review of Exceptional Access Policy (March 23, 2004).

the likely timetable for discussions. The Board is also provided with a separate informal note evaluating the case for EA based on further consideration of the four substantive criteria.

- *A higher burden of proof in program documentation*. Staff reports proposing EA must include: a consideration of each of the four criteria; a thorough discussion of BoP need and proposed access; a comparison of proposed access with other metrics aside from quota; and systematic and comprehensive information on capacity to repay the Fund. The Board is also provided with an assessment of risks to the Fund arising from the exposure and its effect on liquidity.
- *Ex-post evaluation***.** An ex-post evaluation (EPE) will be expected within a year after the end of the arrangement.[76]

**GRA Exceptional Access Framework**




2004 Review of Exceptional Access Policy SM/04/99

**55. A fiscal safeguards review is required when EA involves budget financing.**[77] Under the safeguards assessment policy, the fiscal safeguards review should be conducted before the first review of a program involving EA to Fund resources if, at the time of program approval, the member expects that at least 25 percent of the funds will be directed to financing the state budget. This requirement also applies when a member requests EA to Fund resources during an arrangement unless a fiscal safeguards review was completed within the previous 18 months.[78]

[76] This will be guided by Ex Post Evaluations of Exceptional Access Arrangements—Revised Guidance Note (February 25, 2010). An EPE will not be required where PS-HCCE are triggered by a request for an outright purchase or disbursement.

[77] Budget support refers to cases where the domestic counterpart of Fund resources is channeled to a member, to finance the budget deficit of the government directly or indirectly. See Staff Guidance Note on the Use of Fund Resources for Budget Support (IMF, March 23, 2010).

[78] See Safeguards Assessments: Review of Experience (IMF, September 23, 2015).

***For more information:***

*Review of Exceptional Access Policy* (IMF, 2004)

*Ex Post Evaluations of Exceptional Access Arrangements—Revised Guidance Note* (IMF, 2010)

*Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010)

*Safeguards Assessments: Review of Experience* (IMF, 2015)

*The Fund's Lending Framework and Sovereign Debt — Further Considerations* (IMF, 2015)

### Exceptional Access Under the PRGT

**56. Exceptional access (EA) to PRGT resources applies when access exceeds the normal annual access limit of 145 percent of quota or cumulative access limit of 435 percent of quota**. Requests for EA to PRGT resources are not subject to hard caps[79] and can be accommodated if the following four substantive criteria are met:

1) The member is experiencing or has the potential to experience exceptional balance of payments (BoP) pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
2) Risks to the sustainability of public debt are adequately contained. This is evidenced by:
   - A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; or
   - Where the member's public debt is not assessed to be sustainable with high probability, access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request.
3) The member does not meet the income criterion for presumed blending at the time when a new financing request (including augmentation/rephasing) is made.[80]

[79] Note however that there are hard caps on access to the RCF.

[80] A country is deemed to meet the income criterion for blending when its annual GNI per capita exceeds the IDA operational cutoff by at least 5 percent for two consecutive years. Having met the income threshold, the country is deemed to continue to meet it unless its annual GNI per capita falls below 95 percent of the IDA operational cutoff.

(continued)

4) The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

**57. Exceptional access to PRGT resources triggers procedural requirements**. These include requirements for a new DSA and early Board engagement, which are the same as under the high access procedures (HAP).[81]

- *DSA*. A new DSA is required when a financing request under the PRGT involves EA.
- *Early Board consultation***.** An early informal Board meeting is required for new or augmented financing requests involving EA to PRGT resources. Information to the Board would typically be in a 2–3 page note that would include (i) the factors underlying the large BoP need, taking into account financing from donors, (ii) a brief summary of the main policy measures and macroeconomic framework, (iii) the expected strength of the program and an assessment of capacity to repay the Fund including an updated capacity-to-repay table, (iv) an analysis of debt vulnerabilities, including a preliminary assessment of the risk of debt distress facing the member (reflecting all projected debt financing, including from the Fund), along with discussion of any deficiencies in the quality/transparency of public debt data, (v) a reference to the impact on the Fund's concessional resources (drawing on the latest available paper on concessional resources), (vi) the likely time table for discussion with the authorities, (vii) a selected economic indicators table and the standard DSA charts. To ensure that the views of Executive Directors on access levels are appropriately reflected in the negotiations, the meeting should take place as soon as management agrees that a new or augmented financing request involving EA could be appropriate.

**58. Enhanced safeguards (ES) are required for new or augmented financing requests entailing EA to PRGT resources, excluding emergency financing**.[82] Requests for access above 100 percent of quota annually or 300 percent of quota cumulatively trigger ES1A and ES1B.[83] ES1A requires a granular discussion of the structure and evolution of debt, accompanied by a table. ES1B requires a discussion of capacity-to-repay risks based on a dashboard showing Fund exposure metrics compared to past PRGT-supported programs.

---

Should the GNI per capita fall below this level, the country no longer meets the income threshold for blending and would no longer be a presumed blender (until it re-qualified). The cutoff for FY22 is a GNI per capita of $1,205 based on World Bank data released in July 2021 (IMF Policy Paper 2021/053).

[81] See IMF Policy Paper 2021/053. HAP are triggered if (i) PRGT access exceeds 240 percent of quota over any 36 months period, including both previous and new disbursements ("flow" trigger) or (ii) cumulative PRGT access (i.e., credit outstanding to the PRGT) exceeds 300 percent of quota at any point during the program ("stock" trigger).

[82] See IMF Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay (March 21, 2022).

[83] ES2, which requires a discussion of how the program seeks to reduce debt vulnerabilities, will not apply since EA policy automatically satisfies ES2 given that the debt sustainability requirement under EA is more stringent.

**59. A fiscal safeguards review is required when EA involves budget financing**.[84] Under the safeguards assessment policy, the fiscal safeguards review should be conducted before the first review of a program involving EA to Fund resources if, at the time of program approval, the member expects that at least 25 percent of the funds will be directed to financing the state budget. This requirement also applies when a member requests EA to Fund resources during an arrangement unless a fiscal safeguards review was completed within the previous 18 months.[85]

***For more information*:**

*Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

*Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010)

*Safeguards Assessments: Review of Experience* (IMF, 2015)

*Fund Concessional Financial Support for Low-Income Countries—Responding To The Pandemic* (IMF, 2021)

*Poverty Reduction and Growth Trust—Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay* (IMF, 2022)

### High Combined Credit Exposure under the PRGT and the GRA

**60. PRGT-eligible countries are divided into presumed blenders and non-presumed blenders.** Blending is presumed for PRGT-eligible countries that (i) meet the income criterion for blending and (ii) do not have debt vulnerabilities that limit their access to international financial markets.[86] Presumed blenders can access Fund financing in a 1:2 mix of PRGT and GRA resources, with access to PRGT resources capped at 145 percent of quota per arrangement. All access above the PRGT limit needs to be met from GRA resources. PRGT-eligible countries that are not presumed

[84] Budget support refers to cases where the domestic counterpart of Fund resources is channeled to a member, to finance the budget deficit of the government directly or indirectly. See Staff Guidance Note on the Use of Fund Resources for Budget Support (March 23, 2010).

[85] See Safeguards Assessments: Review of Experience (September 23, 2015).

[86] A presumed blender is a country that meets the income criterion for blending, i.e., its annual GNI per capita exceeds the IDA operational cutoff by at least 5 percent for two consecutive years. The country continues to meet the income threshold as long as GNI per capita does not fall below 95 percent of the IDA operational cutoff. Having met the income threshold, the country is deemed to continue to meet it unless its annual GNI per capita falls below 95 percent of the IDA operational cutoff. Should the GNI per capita fall below this level, the country no longer meets the income threshold for blending and would no longer be a presumed blender (until it re-qualified). A country meeting the income criterion is not required to blend if debt vulnerabilities limit its access to international financial markets, that is, when: (i) the country is assessed to be in debt distress or (ii) it is assessed to be at high risk of debt distress and either (a) has limited past access to international financial markets or (b) is a small/micro-state (population below 1.5 million) or microstate (population below 200,000). A country has durable and substantial access to international financial markets if it has issued or guaranteed eligible external debt in at least three of the past five years in a cumulative amount equivalent to at least 50 percent of its quota. See IMF Policy Paper 2021/053.

blenders may receive financing exclusively from the PRGT resources, although they could also request to access the GRA resources, in a blend with PRGT resources or not.[87]

**61. Policy safeguards for high combined credit exposures (PS-HCCE) apply when the combined access to PRGT and GRA resources exceeds 145 percent of quota annually or 435 percent of quota cumulatively, net of scheduled repurchases/repayments.** IMF financing that triggers PS-HCCE may only be approved if the Board is satisfied that the following three substantive criteria are met:[88]

1) The member is experiencing or has the potential to experience exceptional balance of payments (BoP) pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to a combined access to PRGT and GRA resources in amounts exceeding the thresholds that apply as limits in the GRA.
2) Risks to the sustainability of public debt are adequately contained. This is evidenced by:
    a. *For members for whom the use of the LIC-DSF is warranted*:
        i. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; or
        ii. Where the member's public debt is not assessed to be sustainable with high probability, combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request.
    b. *For members for whom the use of the SRDSA is warranted*: the debt sustainability requirements for providing exceptional access to GRA resources are met.
3) The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

[87] Non-presumed blenders can also be eligible to seek exceptional access (EA) to PRGT resources, i.e., in excess of the normal annual access limit of 145 percent of quota or cumulative access limit of 435 percent of quota, provided that they meet the PRGT EA criteria.

[88] See IMF Policy Paper 2020/039.

**62. Procedural requirements for financing requests subject to PS-HCCE are broadly similar to those applying under the GRA exceptional access (EA) framework**:

- *Early Board consultation*. An early informal Board meeting is required as soon as management determines that a new or augmented combined access to GRA and PRGT resources exceeding the thresholds for PS-HCCE may be appropriate. In advance of the meeting, staff will circulate a note to the Board that sets out the preliminary evaluation of the three substantive criteria applying under the proposed policy safeguards. Strict confidentiality requirements will be maintained. The note will include (i) the factors underlying the exceptional BoP need in the current or capital account, taking into account financing from donors; (ii) a brief summary of main policy measures and the macro framework; (iii) an assessment of capacity to repay including a capacity-to-repay table; (iv) a reference to the impact on Fund resources, including the impact on the Fund's concessional resources; (v) an analysis of debt vulnerabilities, including a preliminary DSA assessment and typically DSA charts; (vi) a discussion of any deficiencies in the quality/transparency of public debt data; (vii) the likely timetable for discussion with authorities; and (viii) a selected economic indicators table.
- *Consultation with Executive Directors.* Additional consultations with Executive Directors will normally be expected to occur between the initial informal meeting and the Board's consideration of the staff report (SR). The briefings will aim to keep the Board abreast of program-financing parameters, including assumed rollover rates, economic developments, progress in negotiations, any substantial changes in understandings, and any changes to the initially envisaged timetable for Board consultation.
- *Staff reports.* The case for Fund financing at levels above the thresholds for high combined PRGT and GRA credit exposures based on the proposed three substantive criteria will also be discussed in the SRs at approval of the new financing request, and at each program review, where the financing request, if approved, would result in credit exceeding the specified thresholds. The SR would be expected to discuss the impact of the financing request on Fund resources, including the impact on concessional resources, and credit risk exposure to the Fund where warranted, unless a separate supplement is already prepared on this.[89]
- *Ex-post evaluation***.** An ex-post evaluation (EPE) by the staff of arrangements that entail combined access exceeding the PS-HCCE thresholds will be expected within a year after the end of the arrangement.[90]

**63. The combined access to PRGT and GRA resources could trigger PRGT and/or GRA EA safeguards on top of PS-HCCE if the PRGT and/or GRA portion exceeds 145 percent of quota annually or 435 percent of quota cumulatively**. In these concurrent cases, the early Board

[89] A separate supplement would continue to be required if GRA EA procedures apply.

[90] This will be guided by Ex Post Evaluations of Exceptional Access Arrangements—Revised Guidance Note (February 25, 2010). An EPE will not be required where PS-HCCE are triggered by a request for an outright purchase or disbursement.

consultation will involve one informal Board meeting and there will be a single concise note that meets the substantive informational requirements under the applicable policies:

- If the GRA EA policy is triggered on top of PS-HCCE, the GRA EA criteria would apply but not the PS-HCCE criteria. Procedural requirements for both PS-HCCE and GRA EA would apply.
- If the PRGT EA policy is triggered on top of PS-HCCE, both the PS-HCCE and PRGT EA criteria would apply. Procedural requirements for both PS-HCCE and PRGT EA would apply.
- If both GRA EA and PRGT EA policies are triggered on top of PS-HCCE, both GRA EA and PRGT EA criteria would apply, while PS-HCCE would be deemed to be met. Only procedural requirements for GRA EA and PRGT EA would apply.
- If the PRGT high access procedures (HAP) are triggered on top of PS-HCCE, [91] the PS-HCCE criteria would apply. Procedural requirements for both PS-HCCE and PRGT HAP would apply.[92]

**Annex Table 1. Applicable Criteria and Procedural Requirements under Combined Access to PRGT and GRA Resources**

| Policies Triggered | Applicable Criteria | Procedural Requirements |
|---|---|---|
| PS-HCCE + GRA EA | GRA EA | PS-HCCE + GRA EA |
| PS-HCCE + PRGT EA | PS-HCCE + PRGT EA | PS-HCCE + PRGT EA |
| PS-HCCE + GRA EA + PRGT EA | GRA EA + PRGT EA | GRA EA + PRGT EA |
| PS-HCCE + PRGT HAP | PS-HCCE | PS-HCCE + PRGT HAP |

64. **Additionally, enhanced safeguards (ES) are required for new or augmented financing requests entailing EA to PRGT resources, excluding emergency financing.**[93] If the PRGT portion under combined access exceeds 100 percent of quota annually or 300 percent of quota cumulatively, it triggers ES1A and ES1B.[94] ES1A requires a granular discussion of the structure and evolution of debt, accompanied by a table. ES1B requires a discussion of capacity-to-repay risks based on a dashboard showing Fund exposure metrics compared to past PRGT-supported programs.

---

[91] HAP are triggered if (i) PRGT access exceeds 240 percent of quota over any 36 months period, including both previous and new disbursements ("flow" trigger) or (ii) cumulative PRGT access (i.e., credit outstanding to the PRGT) exceeds 300 percent of quota at any point during the program ("stock" trigger). See IMF Policy Paper 2021/053.

[92] Procedural requirements under the PRGT HAP are the same as those under the PRGT EA. See IMF Policy Paper 2019/014.

[93] See IMF Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay (March 21, 2022).

[94] ES2, which requires a discussion of how the program seeks to reduce debt vulnerabilities, will not apply since PRGT EA and PS-HCCE policies automatically satisfies ES2 given their more stringent debt sustainability requirement.

**65. A fiscal safeguards review is required when EA involves budget financing**.[95] Under the safeguards assessment policy, the fiscal safeguards review should be conducted before the first review of a program involving EA to Fund resources if, at the time of program approval, the member expects that at least 25 percent of the funds will be directed to financing the state budget. This requirement also applies when a member requests EA to Fund resources during an arrangement unless a fiscal safeguards review was completed within the previous 18 months.[96]

***For more information*:**

*Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

*Policy Safeguards For Countries Seeking Access To Fund Financial Support That Would Lead To High Levels Of Combined GRA-PRGT Exposure* (IMF, 2020)

*Fund Concessional Financial Support for Low-Income Countries—Responding To The Pandemic* (IMF, 2021)

*IMF Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay* (IMF, 2022)

## L. Use of Fund Resources for Budget Support

**66. Under certain circumstances, Fund resources could be used for budget support consistent with the Fund's mandate and legal framework**. Use of Fund resources within a member's domestic economy to finance the budget would be consistent with the Fund's legal framework if a BoP need exists and the resources are used in support of policies that will address the BoP problem, with program documents underpinning the rationale for budget support, including linking it to program objectives (see below). This might be the case if restoring domestic and external stability in the context of a BoP crisis calls for a larger fiscal deficit than could be financed from external and domestic sources.

**67. Either direct budget or indirect budget support could be considered under Fund-supported programs**. Direct support to the Treasury could be particularly useful in situations where the institutional setting or market constraints precludes an independent central bank lending to the government (e.g., restrictions on central bank lending), or where the central bank plays a relatively passive role (e.g., under a currency board or in fully dollarized economies). By contrast, indirect budget support is channeled via the central bank to accommodate a fiscal stimulus through on-lending (via central bank credit) or indirectly (via looser monetary policies). It should be noted that other multilateral organizations such as the World Bank or bilateral donors often provide their support to the country's budget.

[95] Budget support refers to cases where the domestic counterpart of Fund resources is channeled to a member, to directly or indirectly finance the budget deficit of the government. See Staff Guidance Note on the Use of Fund Resources for Budget Support (March 23, 2010).

[96] See Safeguards Assessments: Review of Experience (September 23, 2015).

**68. Regardless of how budget support is channeled to the member, program documents should explain the need for and role of Fund financing as follows**:

- Demonstrate the existence of a BoP need, describe the authorities program objectives and proposed policy mix, and discuss how the proposed level of access was determined.
- In cases where direct budget support is envisaged, program documents should provide the institutional rationale and discuss how direct budget support would be consistent with the program objectives. The links between the proposed budget support and program targets (e.g., NIR and NDA) should be highlighted.
- Discuss the exit strategy, including how the member can move away from Fund financial support once the arrangement ends. In cases of direct budget support, staff should closely assess the risks of prolonged dependence on Fund financing.

**69. Program accounting conventions should also be discussed.** Program documents should clarify how program targets, including on reserves and net domestic financing, have been aligned to the modalities for budget support.

***For more information:***

*Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010)

## M. Political Assurances

**70. The approval or completion of a review of a UCT arrangement must be based on, among other things, adequate safeguards for the use of Fund resources including the authorities' capacity to implement the proposed economic program**. There may arise cases where the government has limited ability to implement an agreed economic program due to lacking political support or where elections may lead to a shift in the government. In such cases the IMF Board may need assurances from key candidates that the economic program can be implemented in the event of a change of government during a Fund-supported program.

**71. While the need for political assurances is to be judged on a case-by-case basis, the following indicative principles should be followed**:

- If there is uncertainty around the member's commitment to a program, including where the outcome of an election is uncertain, the presumption is that approval of that arrangement is delayed until a new government has endorsed the program.
  - Where there is uncertainty about the intentions of a new administration following an election and if a delay is not deemed desirable (e.g., because of the fragility of macroeconomic conditions or spillover concerns to other countries), it would be appropriate to require the endorsement of key elements of the program from the main opposition parties.

- To address safeguards concerns and the willingness of a potential successor government to proceed with the program, this commitment should preferably be public.

**72. Political assurances typically involve an endorsement of overall program objectives and the thrust of key policies.** The modalities of that endorsement, e.g., letter to the Board, public statement etc., depend on country circumstances and judgement.[97] Published expressions of commitment have been supplied as statements to the Executive Board, including Bulgaria (1997), Yugoslavia (2001), and El Salvador (2009). In the case of Portugal (2011), program documentation referenced the opposition's endorsement in a memorandum of understanding with the European Commission. For a recent example, see excerpts from Argentina 2018 SBA under the relevant exceptional access criterion (which in and of itself represents a somewhat higher bar in terms of the criticality of political assurances).

## N. Side Letters

**73. Side letters are confidential policy understandings complementary to or elaborating on an existing LOI**. They take the form of a written communication from the authorities to staff or management, containing confidential policy understandings complementary to, or elaborating upon, those in new or existing LOIs supporting a new request for the use of Fund resources or completion of a review. The use of side letters to keep certain understandings confidential can be justified only if their publication would directly undermine the authorities' ability to implement the program or render implementation more costly. Accordingly, their use will normally be limited to cases in which the premature release of the information would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.

**74. Side letters should be used sparingly**. They should normally be used only for measures that are highly market sensitive, such as exchange market interventions or bank closures. Side letters are shown to, and considered by, the Board in a special restricted session. The Board would normally see the full text of the side letter, although some specific information could be deleted (e.g., intervention trigger points, bank names), based on conditions set in the decision. In addition, a measure that has been set as a performance criterion, structural benchmark, or prior action may, on rare occasions, appear in a side letter rather than in an LOI/MEFP. During preparation of side letters and prior to the Board meeting, area departments should consult with SPR and LEG on the application of the side letters policy and also follow the Executive Board Work Procedures on side letters.

[97] Examples of such modalities have included a letter or public statement from opposition parties/ presidential candidates, a joint government and IMF staff consultation, government consultation with the opposition parties or in some cases, other political actors signing the LOI.

***For more information:***

Side Letters and the Use of Fund Resources, SM/99/66 and follow-up papers SM/99/85 and SM/99/163

Summing Up by the Acting Chair—Review of Side Letters and the Use of Fund Resources, Executive Board Meeting 02/59, June 12, 2002

## O. Program Design in Currency Unions

75. **Members of a currency union (CU) members can experience BoP problems.**[98] Either members themselves or union-level institutions may adopt policies (or experience shocks) that are inconsistent with the expected path of the common exchange rate. This could lead to a sudden and persistent BoP deficit, putting pressure on the union's currency or reserves.

76. **Program design in CUs presents unique challenges because members of CUs, but not the CU itself are IMF members.** Because membership of the IMF is limited to countries, only the constituent members of the CU and not the CU itself may become a member of the IMF. This has important implications. In particular, only IMF members, and therefore the individual members of the CU, can request access to the Fund's resources. Secondly, and as a general rule, conditionality can only be established over matters within the direct and indirect control of the member. In order to try to address some of these aspects, the Fund's policy on program design for CU members[99] aims at a consistent, transparent, and evenhanded treatment of Fund-supported programs in currency unions.

77. **Specific considerations go into determining the BoP need of an individual CU member.** Residency rather than currency is the basis for the BoP need, since a drain of funds out of the country (from residents to non-residents) can occur in either foreign or domestic currency or to countries inside or outside the union. How such a BoP problem is addressed also depends on the type of the currency union. In most CU member countries, the BoP need is related to an expected persistent unfinanced BoP deficit, typically requiring budget support. However, for currency unions that have a pegged regime, a BoP problem may imply an underlying external viability issue and inadequate union-level reserves. It is also important to note that the relevant consideration in determining the BoP need under a Fund-supported program is the specific need of the particular member.

78. **Where a measure falling within the powers of regional authority is considered critical to program success, the Fund can make the use of its resources conditional on a union-level policy action outside of the member's own control.** Programs with CU members should primarily be organized around policies under the direct or indirect control of the national authorities since the

---

[98] There are four existing CUs involving Fund members: The Central African Economic and Monetary Community, the Eastern Caribbean Currency Union, the European Monetary Union, and the West African Economic and Monetary Union.

[99] IMF (2018) *Program Design in Currency Unions*

Fund is a member-based organization.[100] However, where a union-level policy action is critical to the success of the member's Fund-supported success, regional policy assurances should be provided directly by the union-level institution that has the mandate and responsibility for the policy action. The Board would need to be satisfied as to the criticality of these assurances, so staff reports should establish the criticality of any union-level action sought. In very exceptional cases, the Fund may need to seek assurances regarding adjustments in union-wide policy settings that affect other members of the currency union.[101] Regional policy assurances can be sought over structural measures (e.g., the adoption of new regional foreign exchange regulations) or over macroeconomic variables (e.g., the NIR of the regional central bank).

**79. Regional policy assurances would need to be provided in a clear, specific, and monitorable form (where necessary, time-bound)**. This should be provided by way of a letter of policy support provided by the relevant union-level entity addressed to the MD and provided to the Board. The Board should be regularly (i.e., at least semi-annually) updated on the status and implementation of previously agreed understandings, and of any proposed amended or new understandings. The Executive Board endorses the regional policy assurances (or any modification thereof) in the summing-up of any discussion on regional level policies. UFR staff reports for each CU member should clearly reference the Board's endorsement of regional policy assurances in the program modalities section.

**80. Where a regional policy assurance is not fully implemented, program reviews involving UFR to CU members cannot proceed until the Board has made a finding that the objectives of the member's program can nevertheless be met notwithstanding the incomplete implementation of the regional policy assurance.** Such a finding would be based on the staff's assessment that the shortfall in policy implementation was temporary, minor, or that sufficient corrective action had been taken). For instance, staff reports for the CEMAC currency union (e.g., the January 2022 report) and its member countries provide relevant insight into program design in currency unions.

***For more information:***

*Program Design in Currency Unions* (IMF, 2018)

[100] Directors underscored that program design should be based, to the extent possible, on policies over which the national authorities of the member have direct or indirect control. They agreed that, insofar as currency union members have delegated important economic and financial policies to union-level institutions, assurances with respect to actions by these institutions would be sought when the member's adjustment policies alone could not meet the program's objectives. The scope of such actions would normally be limited to the specific member country, mindful of the need to mitigate their potential impact on the rest of the currency union. The threshold for the Fund to make the use of its resources conditional on a policy action by a union-level institution is the same as for policies under the member's own control: the measure must be deemed critical to program success." See Press Release No. 18/90.

[101] These exceptional circumstances could occur when policies at the union level, such as unsustainable foreign exchange interventions, have contributed to the balance of payments problem facing the union's members, or when a critical mass of the union's members face a contemporaneous balance of payments problem.

## P. Reserve Adequacy in Dollarized Economies

**81. The discussion on reserve adequacy should consider the specific circumstances of fully and partially dollarized economies.** For partially dollarized economies, reserve adequacy considerations do not differ conceptually from non-dollarized ones. However, for fully dollarized economies, the need for a foreign exchange liquidity buffer differs from other countries since they generally do not face exchange rate and currency mismatch risks, unless there are sizable assets and liabilities in currencies other than the legal tender.

**82. Fully dollarized economies may need liquidity buffers in the adopted foreign currency to support the liquidity of domestic financial institutions and as a buffer for government financing**. Liquidity pressures in banks could result in drains on the financial system, e.g., due to a decline in exports, a sudden stop in external financing, capital flight, or a resident deposit run. Governments may also wish to maintain fiscal savings as buffer against unexpected fluctuations in revenue or spending since funding in the adopted currency may be difficult in times of stress. As such, several fully dollarized economies complement high liquidity ratios in banks with centralized reserve buffers. While precisely calibrating the possible needs due to external pressures is difficult, most of the abovementioned risks are captured by the ARA EM metric, and this could provide a conservative starting point for assessing the liquidity buffer. At the same time, the existing liquidity buffers of the domestic financial institutions, especially the prudential liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio), should be closely assessed. For the fiscal reserve buffer, one month of government spending is a possible benchmark, and staff could discuss additional tools (e.g., fiscal rules) to secure the level of international reserves. These considerations could inform the design of conditionality on international reserves.

**83. For partially dollarized economies, the existing literature is divided on whether there is an increased crisis likelihood/severity.**[102] Nonetheless, depreciation pressures created by liquidity shortages could be exacerbated by balance sheet effects due to currency mismatches of banks, corporates, and households. Program strategies for partially dollarized economies should clarify whether the extent of privately held buffers or dollarization means a higher or lower level of reserves is needed compared with standard metrics, including the ARA EM metric. To the extent that non-resident foreign exchange holdings are seen to present higher risks than those captured in the ARA EM metric, these should be discussed and accommodated within the adequacy assessment. In cases where risks from dollarization are judged to be present, the Fund-supported program could include a performance criterion on international reserves toward a level consistent with reserve adequacy.

***For more information:***

*Staff Guidance Note on the Assessment of Reserve Adequacy and Related Considerations* (IMF, 2016)

[102] There does not appear to be a standard definition establishing a threshold for partial dollarization, but Bennett et. al, 1999, gives benchmarks for moderate dollarization (a ratio of foreign currency deposits relative to broad money of less than 30 percent) versus high dollarization (where that ratio exceeds 30 percent).

## Q. Lending Into Official Arrears

**84. The 2015 policy on the non-toleration of arrears permits the IMF to lend to countries with official bilateral arrears in carefully defined circumstances**. This follows the general principle that the Fund should be able to lend into arrears where an assessment has been made that the debtor is making good faith efforts to reach an agreement and that the existence of arrears is exclusively due to the unwillingness of the official bilateral creditor to provide support consistent with the parameters of the Fund-supported program—either in the form of restructuring or the provision of new financing. This policy calls for:

- *All creditors are encouraged to reach a consensus.* The Paris Club is considered the "first port of call" as a well-established forum for collective treatment of debt by bilateral creditors, and the Fund would encourage official creditors that are not part of the Paris Club to participate in the Paris Club negotiation on an ad-hoc basis .[103] If an agreement is reached through the Paris Club representing a significant portion of total official bilateral claims, the Fund can deem away arrears to nonparticipating creditors based on the Club's comparability of treatment principle.[104] Importantly, for purposes of the non-toleration policy, arrears to nonparticipating bilateral creditors are similarly deemed eliminated for program purposes, as the Fund has relied on the Paris Club's comparability of treatment principle and assumed that these creditors will restructure the member's debts on similar terms.[105]*Only when an agreement cannot be reached* with a representative group of creditors in the Paris Club, or with each creditor in an alternative grouping or bilaterally, would the Fund consider lending into arrears owed to official bilateral creditors in carefully circumscribed circumstances.[106] The decision to lend in these situations would require meeting the following conditions:
    - prompt Fund assistance is considered essential, and the member is pursuing appropriate policies;
    - the debtor is making good faith efforts to reach an agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program;

[103] Should a new representative forum for official sector involvement emerge, the Fund could similarly urge the creditors involved to reach consensus within that forum.

[104] The "Agreed Minute" describes the agreement negotiated between the sovereign debtor and Paris Club creditors (including any ad-hoc participants). While the Agreed Minute is not legally enforceable, it provides the basis for the bilateral agreements between the debtor and each participating creditor that are subsequently agreed upon.

[105] Under the comparability of treatment principle, the agreement reached between the debtor and Paris Club creditors requires the debtor to seek treatment from non-Paris Club creditors (official or private) that is no more favorable (to the creditor) than that provided by Paris Club creditors.

[106] An agreement will be considered "adequately representative" when it covers a majority of total financing contributions from official bilateral creditors over the program period. These contributions would comprise, and be limited to, debt service claims falling due— which represent potential debt relief—and any new financing (e.g., loans, bond financing, guarantees and grants) over and above the amount needed to service such claims. If, in a particular case, it is evident that the program parameters require less than full rescheduling of debt service coming due during the program period, this calculation could be adjusted accordingly.

- o the decision to provide financing despite the arrears would not have an undue negative effect the Fund's ability to mobilize official financing packages in future cases.

**85. The policy is applied at the time of every disbursement or purchase** so long as arrears to external bilateral creditors are outstanding.

**86. Finally, the LOIA provides private creditors with an important incentive to participate in the restructuring** as, in the event of a default, the Fund would be in a position to continue to provide support if the conditions of the LIOA policy are satisfied.

**87.** The LOIA policy remains unchanged because of the 2022 review of the Fund's Policies on Sovereign Arrears and Related Perimeter, although the Fund's definition of an official bilateral claim was updated in light of the recent evolution of the creditor landscape (such as new creditors and new types of instruments.

***For more information:***

*Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors* (IMF, 2015)

*Reviews of the Fund's Sovereign Arrears Policies and Perimeter* (IMF, 2022)

## R. Review Process for Program Documents

*This section summarizes chronological steps, best practices, and the roles of authoring Area departments, SPR and other reviewing departments to ensure an effective and efficient review of program documents. Required contents for reviewed documents is covered below.*

**88.** The area department and SPR have joint responsibility for clearance of policy notes (PNs) and staff reports, comprising UFR, surveillance and other program support, prior to submission to management. Documents for review are first prepared by area department-led mission teams. The review process also involves LEG and FIN. Other functional departments will review these documents as required.

***Role of Area Departments in the Review Process***

**89. Early engagement.** To ensure an efficient process in the production, review, and clearance of country papers, teams are strongly encouraged to maintain an ongoing dialogue with SPR (and other relevant departments), and especially to engage informally in the early stages of preparing a PN. This would allow for a preliminary exchange of views on any policy lines that the team is considering at that stage, help ensure that all relevant topics and required documentation will be covered in the draft that is sent for review and agree on whether the expedited procedures for the SR would be appropriate. In cases where new program financing or non-financing instruments are envisaged, mission teams are encouraged to consult informally with SPR (and if relevant, FIN or LEG) at an early stage to implement the relevant Fund policies.

**90. Quality control**. The authoring department is responsible for the overall quality of country papers sent to departments and ultimately to management. This includes making best efforts to ensure that papers meet Fund policy requirements, including on coverage and document length, as well as ensuring analytical and editorial quality (clarity and accuracy).

**91. Expediting clearance.** When the papers are sent to SPR for final clearance, best practice is to show redlined changes, relative to the version sent for review, together with notes on how departments' main comments have been addressed—this will help facilitate (conditional) clearance within 24 hours. The draft cover for management should summarize the main points raised by departments, indicate which were taken, and explain clearly and concisely any remaining differences on which management needs to adjudicate.

**92. Staff visits.** Briefs should follow standard review and clearance procedures if there are any material changes in economic circumstances or policy line. If the area department and SPR agree there are no such changes, a one-page brief can be circulated for information only. Early consultation with SPR is encouraged, to determine which track is to be followed.

**93. Realistic timelines.** In establishing the timeline for a paper, the authoring department is responsible for building in not only the prescribed review and clearance periods (for both reviewing departments and management), but also sufficient time to address comments received at each stage (making allowance for the possibility of an extended dialog in the review process in difficult cases). Failure to do so may result in the delayed departure of missions or issuance of papers. Any compression of timelines should be limited to emergency situations.

***Role of SPR in the Review Process***

In UFR cases, [107] SPR is responsible for: (i) evaluating the overall design and key components of Fund-supported programs; (ii) assessing program financing, including the proposed level of access; and (iii) ensuring that the program is consistent with Fund policies and principle of comparable treatment. SPR's approach to its review work encompasses the following key elements.

- **Tightly focused review.** SPR will focus primarily on ensuring that the Fund's advice is: (i) analytically sound and aligned with available cross-country experience (on which SPR will provide support to country teams); and (ii) consistent with established Fund policies, including on evenhandedness. SPR will give due deference to the area department's close knowledge of the country and its political economy when evaluating policy recommendations or program

[107] In surveillance, SPR is responsible for (i) ensuring consistency of the surveillance with Fund policies as well as comparable treatment across the membership; (ii) evaluating the thrust and key components of country-specific analysis and policy recommendations.

design. Likewise, SPR would normally defer to functional departments in the technical areas where they have expertise.[108]

- **Parsimony.** SPR's comments (like those of other reviewing departments) should be parsimonious and prioritized. Main comments—those that, if not resolved during the review process, are sufficiently important to be flagged as such to management—should normally not exceed 450 words. They should be clearly distinguished from other comments, which should also be selective and normally not exceed 450 words.
- **SPR's clearance**. In responding to a revised document sent for clearance, SPR will focus on how reviewing departments' comments have been addressed and refrain from raising new issues, absent new information. Every effort will be made to respond within 24 hours. SPR is also responsible for ensuring that other reviewers' comments have been appropriately incorporated or flagged in the supporting cover memo. SPR's sign-off implies a satisfactory assessment of, and joint responsibility with, the area department.
- **Cover memo.** In order that SPR can fulfill these responsibilities, area departments should seek clearance on the final version of the main document and share the draft cover memo for comments. Language in the cover relating to SPR's and other reviewing departments' views should be cleared by the SPR senior reviewer.

***Pre-Mission Work***

**94. Policy Note (PN).**[109] In preparation for policy discussions with country authorities (UFR, surveillance, and non-financing support), area departments will prepare a PN. The first draft of the PN is reviewed by departments and discussed at the Policy Consultation Meeting (PCM). Divergences of views with reviewing departments, brought up during the Policy Consultation Meeting should be flagged upfront in the final (post-PCM) PN sent to management for clearance. Procedures for management clearance should be decided jointly by the area department and SPR according to the criteria in Table 1.

**95. Policy Consultation Meetings (PCM)**. A PCM should be held approximately two to three weeks prior to missions. The PCM should discuss key issues and ideally reach agreement, establishing common understandings on the final PN. Review departments should ensure that experts able to speak for their department on the policy line attend the meeting. All policy issues should preferably be raised at the PCM (and not opened subsequently). If needed, a follow up meeting may be called. Reviewing departments are encouraged to circulate any cross-country and

[108] Comments will be framed in a constructive way, where possible offering solutions to any identified problems. In commenting on SRs, SPR will not reopen policy positions or other points that were in the approved PN, absent new information that warrants a change.

[109] A PN is required for (i) review and request missions; (ii) Staff visits, and authorities' visits with policy discussions not covered in a previously cleared PN. For technical or information-seeking staff visits only require a short memorandum—to be circulated to review departments for information only—if area departments and SPR agree that there is no change in the policy line or economic circumstances since the last staff report and/or PN.

technical analyses ahead of the PCM and to give the area department an informal heads up of the issues they intend to raise (but avoid extensive written comments).

**96. Cover memorandum for PN.** The final PN should be sent to management for clearance with a cover memorandum, which should provide concise and candid information on the following: (i) key issues—economic situation, including vulnerabilities to an external or financial crisis; (ii) staff's main recommendations; (iii) main issues raised in the review process, including reconciliation of diverging departmental views as appropriate; and (iv) any controversial aspects. Language in the cover memorandum relating to SPR's and other reviewing departments' views should be cleared by the SPR senior reviewer.

***Documents Prepared During Mission***

- **An LOI/MEFP**, accompanied by a TMU, are prepared by the authorities with the support of staff for new requests for financing or non-financing instruments and for reviews. A draft LOI/MEFP should be discussed during the mission, and the authorities, with understandings reached subject to Fund management approval. The authorities should only sign the LOI after management approval. The MEFP/TMU is reviewed by reviewing departments at the SR review stage.

- **Concluding Statements** agreed by the country authorities and the IMF mission team and posted on the IMF website are not reviewed by SPR and reviewing departments.

- **End-of-mission Press Releases** are often issued by the mission after the authorities' review and the clearance of COM country press officer or Media Relations of press.

- Post-Mission Work

- **Back-to-Office Report (BTO):** The mission chief should send a BTO to management within two working days of the mission's return to headquarters.[110]

- **Staff Report.** A staff report is required for an Article IV consultation, initial non-financing instrument request or financing request, and at the time of each review. Management clearance of staff reports is based on the Management Clearance Memorandum that states the main issues addressed in the report, clearly lays out any differences in views among departments, explains significant deviations from the PN, and highlights potentially controversial issues (Annex Table 2). After management clearance, the report is issued to the Executive Board ahead of the Board meeting, at which point any changes to the SR are governed by the Fund's Transparency Policy. Requirements on the preparation of draft Summing Up/Chairman's Statement and press releases are summarized in Annex Table 3.

[110] The BTO should be up to two pages, should mentioning the nature of the mission, the key issues, with an attached Selected Economic Indicators table.

- **Press Release.** COM issues Press Releases for Article IV consultations, new financing or non-financing instrument requests and reviews, which includes a copy of the Chairman's Statement. Area departments prepare the background section, to be reviewed by SPR upon demand. COM prepares the initial draft, including the Chairman's Statement, and requests comments from the area department, LEG, FIN, and the Executive Director of the country in question.

- **Staff Statements**. Staff statements should be prepared as needed if new or additional information becomes available after the submission of the staff report to the Board but before the Board meeting. The statement should explicitly mention whether the new information changes the thrust of staff's assessment in the staff report. The statement should be sent to SPR for clearance, and thereafter to management on a for information basis. The statement should be sent to SEC for Board circulation at least four days before the Board meeting.

- Other Documents

- **Assessment Letters** are subject to the same SPR review and clearance procedures as program-related documents, and they require management approval. Circulation to the Board for information is required at the time of external dissemination.[111]

***For More information:***

*Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

*2021 Policy Coordination Instrument- Operational Guidance Note* (IMF, 2021)

*2022 Guidance Note for Surveillance under Article IV Consultations* (IMF, 2022)

*Guidance Note on Letters and Statements Assessing Members' Economic Conditions and Policies* (IMF, 2018)

[111] For more information, see *Guidance Note on Letters and Statements Assessing Members' Economic Conditions and policies* (IMF, 2018).

**Annex Table 2. Management Clearance**

| Process | Circumstances |
|---|---|
| Management review | Systemic, vulnerable, new program, or exceptional access countries |
| Lapse of Time basis | All other countries |
| Meeting with Management | Major differences of views between area and reviewing departments |

**Annex Table 3. Summing Up, Chairman's Statement, and Press Release**

| Type of discussion | Summing Up | Chairman's Statement | Press Release |
|---|---|---|---|
| Stand-alone UFR | Yes | Yes | No |
| Combined UFR with Article IV | Yes | Yes | Yes |
| Combined Ex Post Assessment/UFR | Yes | Yes | Yes |
| Stand-alone Post Program Monitoring or Ex Post Assessment | Yes | No | Yes |

## S. Required Elements for Policy Notes and Staff Reports

**97. A Policy Note (PN) outlining the policy discussions with country authorities is required in the UFR, surveillance, and other program support context**.[112] The PN is prepared by the area department-led team, reviewed by departments and jointly cleared by the area department-led team and SPR prior to submission to management. The PN should include (i) background diagnostics (including recent developments); (ii) the economic outlook; (iii) the staff's and the authorities' positions on key policy issues; (iv) program objectives (request) and program modalities; (v) risks and mitigation measures; and (vi) standard set of macroeconomic tables (see below).[113] Relevant background material (e.g. analytical underpinnings of program design, exchange rate assessment, debt sustainability analysis) should be added to the PN in the form of concise and focused appendices. PNs should include—where appropriate and subject to confidentiality—contingency plans, including if baseline growth falls significantly short of program projections (see section I.G.).

[112] For new financing or program support, mission teams are encouraged to consult informally with SPR (and if relevant FIN or LEG) at an early stage to get information on relevant Fund policies and program modality.

[113] A shorter PN update would be appropriate for missions and visits whose aim is to continue policy discussions building from a previously cleared PN. This update should cover recent developments, the status of discussions, and, if relevant, justification for any proposed changes to the previous PN.

The final PN should be sent to management for clearance with a cover memorandum that provides concise and candid information on the review process, highlighting any departmental disagreements.[114]

**98. A staff report to the Board is required for an initial program or financing request, at the time of each program review, or where program design is modified in between reviews**. Staff reports should include (i) background diagnostics (including recent economic and political developments); (ii) the economic outlook, including downside risks and debt vulnerabilities (referring to the most recent DSA); (iii) the authorities' policy objectives and plans (for requests) and program modality and performance (for reviews); (iv) a staff appraisal of the key policy issues;[115] and (v) the management clearance memo. For combined UFR and Article IV staff reports, Article IV coverage should be comprehensive and deal with all the relevant issues, in particular critical medium- or longer-term policy issues.[116] [117] Staff reports for members subject to safeguards assessments and monitoring should include a summary safeguards paragraph in the main body of the report on the status of the safeguards issues.

**99. Program documents involving initial requests should set out overall program objectives and specific policy understandings**. Staff reports should explain the choice of instrument, the determination and phasing of access, and the design of conditionality. All program staff reports, both initial requests and reviews, should discuss key near-term policy goals and commitments (typically over the next 12 months), and program financing.[118] Staff reports for program reviews should also discuss performance relative to program conditionality. Risk to program implementation should be explicitly discussed.

**100. Staff reports and policy notes for program requests or reviews should contain a full set of macroeconomic tables and program tables**:

- Standard macroeconomic tables: (a) selected economic indicators; (b) government accounts (in national currency and percent of GDP); (c) monetary survey (central bank accounts and commercial bank accounts); and (d) the BoP.

[114] The cover memorandum (reviewed but not cleared by SPR) should clarify the requested management action and include: (i) key issues—economic situation, including external and domestic vulnerabilities (ii) staff's main recommendations; (iii) main issues raised in the review process, including reconciliation of diverging departmental views as appropriate; and (iv) any controversial aspects.

[115] Staff appraisals should make recommendations for approvals of requests for waivers of nonobservance of PCs, extension of arrangement, augmentation, rephasing, and modification of existing PCs, providing justification that builds on material in the main body of the report to support the recommendation.

[116] See Guidance Note for Surveillance Under Article IV Consultations (IMF, 2022).

[117] Article IV SRs of members with Fund-supported programs are expected to address the implications of key policy measures (for example, fiscal consolidation and reforms) on growth and stability over the medium term where macro-critical as defined in the 2012 Integrated Surveillance Decision.

[118] For more details, see the sections on "Financing Assurances, Arrears, and Safeguards" and "Conditionality" in Chapters I–IV of this operational guidance note.

- Program tables:[119] (a) a table with quantitative conditionality (the "QPC table");[120] (b) a structural benchmark table;[121] (c) a table with the proposed/approved schedule of disbursements and reviews; (d) financing requirements and sources; and (e) the member's capacity to repay the Fund. [122] The PNs and staff reports for all program requests and reviews should include a dedicated capacity to repay paragraph. The staff report should also include staff's qualitative assessment of the member's capacity to repay the Fund when the macro-environment has changed substantially.

**101. A thorough Debt Sustainability Analysis (DSA) should underpin the staff reports and be prepared at least once a year for program countries (at each review for exceptional access cases) and in the event of a combined UFR and Article IV consultation**. DSA-related process issues as periodicity, engagement with the authorities, with the Fund, and with the World Bank —will guided by the provisions for program countries in the relevant SRDSF or LIC-DSF guidance notes. The main conclusions of the DSA and its update should be discussed in the body of the staff report. The DSA or its update is subject to the same review process as a staff report and, when finalized, if not published as a stand-alone document, should be included as a supplement to the staff report. Under the 2020 Debt Limits Policy in IMF-supported programs, a table with information on the country's debt holder profile must be included in staff reports for all program requests and reviews, and the 2021 DLP guidance note provides details including a template table covering the granular information on public debt and debt service composition by creditors and instruments.

**102. External Sector Assessment should be produced once per year**. In general, the assessments are based on the latest observations, i.e., the previous year's annual data. However, for countries with Board discussions scheduled for the last quarter of the current year, bottom line assessments should be anchored on the previous year's outcome but could also have an explicit preliminary view on the current year's assessment (based on current and real effective exchange rate projections and preliminary EBA/EBA-Lite model results for the current year, if the latter is available when the policy note or draft staff report is sent to departments for review).

**103. Risk assessment matrices (RAMs)** are used in UFR documents at staff's discretion, but RAMs are mandatory in Policy Notes for Article IV consultations. Article IV staff reports should preferably include RAMs to help provide a deep and meaningful discussion of risks. Staff Reports without RAMs are expected to provide a deeper and more meaningful discussion of risks in the main

---

[119] In staff reports QPC and SB tables are presented in the MEFP. The QPC table covers (i) previously established targets and outturns (PCs and indicative targets) over at least the past 12 months, (ii) PCs established for the next 12 months (from the expected Board date), and (iii) indicative targets through the end of the calendar year (or fiscal year) for which policies are being discussed.

[120] A table with quantitative targets (QTs) in the case of the Policy Coordination Instrument (PCI).

[121] The SB table covers (i) the implementation status of previously established benchmarks and (ii) benchmarks covering the next 12 months, highlighting their timing and macro criticality.

[122] In the case of precautionary arrangements, the baseline scenario should be presented showing no Fund financing. The potential balance of payments need that might emerge could be highlighted, for example, by discussing how the most volatile external flows may be affected by exogenous shocks, and/or by presenting alternative scenarios showing the possible sources of need.

text to ensure they meet the required standard. If a RAM is not included, it should be flagged explicitly in the cover note along with the area department's rationale for not doing so. SPR's views as to whether the higher bar for the treatment of risks is met should also be indicated.

**104. Informational Annex**. In program context, an informational annex should be issued as a supplement, especially for staff reports of combined program review and Article IV and should not be attached to the staff report.[123] The annexes are subject to departmental review but do not require management clearance.

**105. The LOI sets out the policies and measures the authorities of a member of the Fund intend to pursue in line with the Fund-supported program**.[124] The LOI to be signed by the authorities of the member country typically includes an accompanying MEFP which should be added as an attachment to the staff report for new financing/program requests and for program reviews. A draft LOI/MEFP should be discussed during the mission, and the authorities should be advised that these understandings are reached with staff ad referendum, i.e., subject to Fund management approval. The authorities should therefore not sign the LOI prior to management approval. The LOI must be signed by representatives of those agencies of the member that are responsible for formulating and implementing the policy commitments included in the LOI/MEFP.[125]

**106. The LOI/MEFP should draw out specific actions in support of the authorities' program**.[126] The LOI/MEFP must contain a quantitative performance criteria table and a structural benchmark table.[127] The LOI should also include the standard consultation clause that authorities will consult with the Fund ahead of any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultations. For new program/financing requests, the LOI/MEFP must be accompanied by a TMU that clearly and precisely defines the PCs under the program, including the definitions of indicators, the coverage of government and the monetary authorities, exchange rate valuation for program purposes, program adjustors, data submission requirements,

[123] The issuance of an informational annex is not required for program review cases that are not combined with an Article IV and is at the discretion of the team. In this context teams have rarely issued an informational annex.

[124] Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure. For the Fund's policy on side letters, see Decision No. 12067-(99/108) and also the section on side letters.

[125] The standard practice is that both the Minister of Finance and the Governor of the central bank sign the LOI, although the latter may not be appropriate in currency unions. Signature by presidents and prime ministers is also possible.

[126] Under the PCI for new requests and for program reviews, the authorities of the country will need to sign a Program Statement (PS) that sets out the policies and measures they intend to pursue in line with their Fund-supported program. The PS is presented in the form of a letter and, inter alia, includes an accompanying memorandum (also titled "Program Statement").

[127] For more details, see *Revisions to the Operational Guidance Note on Conditionality* (IMF, 2008) and *Creating Policy Space— Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs* (IMF, 2009).

etc.[128] Standard language on the definition for external debt should also be included.[129] Changes to the TMU should be redlined when it goes to departments for review. In a PRGT case, for the initial program/financing request and at each review, the LOI/MEFP should specify how the program advances the country's poverty reduction and growth objectives and policies drawing on a relevant PRS document when available.

***For more information:***

*2022 Guidance Note for Surveillance under Article IV Consultations* (IMF, 2022)

*2021 Policy Coordination Instrument- Operational Guidance Note* (IMF, 2021)

*2023 Handbook of IMF Facilities for Low-Income Countries* (IMF, 2023)

## T. Collaboration with Other Institutions (including WB and RFAs)

**107. Coordination with other institutions is often necessary for the Fund to provide consistent and effective assistance to members.** Accordingly, the Fund's policy advice, work on program design, and conditionality should strive whenever possible, to be integrated within a coherent country-led framework. Responsibility and accountability for all conditions attached to the use of Fund resources reside with the Fund. The Fund has also made important progress in seeking to strengthen staff-level collaboration with the World Bank and other external partners in the design and implementation of structural reforms in both shared and non-core areas (See e.g. the Implementation Plan on Bank-Fund collaboration on macro-structural issues) .

**108. The relationship between the IMF and the World Bank and is based on a coordination framework that has been agreed between the two institutions.**[130] The Bank-Fund collaboration (BFC) has also significantly evolved and deepened. For instance, the joint Guidance Note on information sharing between IMF and World Bank staff summarizes best practices on information and document sharing processes, including in the context of mission work, and identifies areas for improvement. As an example, the guidance indicates the Bank's counterpart(s) would be asked for comments on the Fund's draft Policy Note, as the same time it is circulated to Fund departments for review (typically a 3-day turnaround). Further, in situation where substantive differences on policy views/analysis can be expected, early informal discussions with Bank counterparts are expected, to

[128] For more details, see IMF (2008 and 2009).

[129] See *Guidelines on Performance Criteria with respect to External Debt in Fund Arrangements,* and Decision No. 6230-(79/140), as amended, and *Staff Guidance Note on the Implementation of Public Debt Limits in Fund-Supported Programs* (IMF, 2015).

[130] See the 1998 Concordat for an umbrella framework. See also Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality (SM/01/219, Suppl. 1, Rev. 1, August 23, 2001), Guidance Note on Fund-Bank Collaboration (FO/Dis/02/176), and Guidance Note on Information Sharing Between IMF and World Bank Staff (February 2022). For Bank-Fund coordination in RST operations, see Annex III of Proposal to Establish A Resilience and Sustainability Trust (April 2022).

facilitate resolution of differences (and are required in the case of the joint LIC DSAs).[131] Broad principles for BFC have also been established at staff level in RST operations. Overall, a central element of the BFC coordination framework is the concept of "lead agency." When conditions in Fund-supported programs apply to measures that are not clearly within the Fund's core areas of responsibility as set out in the guidelines, the design and monitoring of those conditions will, to the fullest extent possible, be based on the advice of the World Bank but the establishment and assessment of such conditionality remains fully within the control of the IMF's Executive Board. Each institution should communicate its work and its views systematically to the other institution, in Board documents and meetings, on the substantive areas and conditionality with respect to which it is in the lead. When appropriate, the staff may also draw upon the work and advice of other multilateral institutions.[132] The application of lead agency should be flexible enough to accommodate the substantial areas of overlapping responsibility between the Fund and the Bank as well as differences in country circumstances. These overlapping areas include elements of financial sector work, some elements of public sector reforms, and issues of transparency, governance, corruption and legislative reform, trade policy, and debt management.

**109. Coordination and collaboration with Regional Financing Arrangements (RFAs) should follow six operational principles.**[133] Collaboration between the Fund and RFAs can mobilize greater regional knowledge and country ownership and enhance the effective firepower through co-financing. Fund-RFA collaboration should be guided by six operational principles:

- **Principle 1: Independence.** The modalities of engagement should respect the independence of the Fund and the RFA. Decisions by the Fund and the RFA must comply with their own policies and governance structures.
- **Principle 2: Mandates and technical expertise.** The roles played by each institution in any particular form of engagement (e.g., surveillance, lending) should reflect their respective mandates and purpose (e.g., in a UFR context, the Fund's focus is on resolving short- to medium-term BoP needs), technical expertise, comparative advantage, legal and governance structures, and constraints imposed by any regional legal frameworks (e.g., treaty obligations in the European Union).

[131] For more background on the IMF and World Bank review process for DSAs, please see Guidance Note on the Bank-Fund LIC DSF, Appendix I.

[132] See G20 Principles for effective coordination between the IMF and MDB in case of countries requesting financing while facing macroeconomic vulnerabilities (March 2017). Various Fund strategies on macrostructural issues also include considerations on IMF collaboration with external partners, see Implementation Plan in Response to the Board-Endorsed Recommendations from the IEO Evaluation Report on IMF Collaboration with the World Bank on Macro-Structural Issues (September 2021).

[133] For further reference, see G20 Principles for Cooperation between the IMF and Regional Financing Arrangements (October 2011) and Collaboration between Regional Financing Arrangements and the IMF (July 2017).

- **Principle 3: Early and ongoing cooperation.** The Fund and RFAs should strive to collaborate on an ongoing basis—to strengthen the capacity for crisis prevention—and work together efficiently and quickly when a financing need arises.
- **Principle 4: Consistency and limited arbitrage.** Collaboration in lending for the Fund requires consistency—in the sense of a single program, belonging to the member country, which may be supported by multiple creditors. To reduce incentives for facility shopping, the modalities and policies relating to program conditionality and monitoring should be transparent and predictable, and explicit links to Fund support should be considered for high levels of RFA financing. Finally, public communications by the Fund and the RFA should be coordinated and consistent.
- **Principle 5: Evenhandedness.** The Fund's engagement with RFAs should be evenhanded across RFAs and between RFA members and other Fund members. This principle of evenhandedness would in practice apply by "activity" and hence (since the scope of activities differs across RFAs) it does not necessarily imply identical treatment for each RFA.
- **Principle 6: Fund's preferred creditor status.** Preferred creditor status reflects an international consensus (originating in the Paris Club) that the Fund is excluded from debt restructuring processes. This must be maintained, as it is derived from the IMF's unique role within the global financial safety net. Moreover, even if the Fund is invited to contribute to a program, the Fund's participation is ultimately an issue for the Fund to decide.

**110. Collaboration should depend on the mandates and technical expertise of RFAs and the Fund**:

- For activities such as capacity development, surveillance, and precautionary arrangements, the collaboration could be based on formal and written agreements to enhance transparency and predictability of the operations, while respecting independence.
- For operations that include ex-post conditionality (such as SBAs and Extended Arrangements), and where the cooperating RFAs either lacks sufficient capacity to design and monitor a member's program or has such capacity but is open to a complementarity/division of labor, the collaboration can be based around a "lead agency" model.
- Where an RFA has sufficient capacity to design and monitor a program and is unable or unwilling to pursue a complementarity/division of labor with the Fund, the collaboration could be based on a "coherent program design and independence" model. This model should be subject to the six operational principles established previously, as well as compliance with the governance structures and policies of the respective institution. Modalities for designing and monitoring programs with ex-post conditionality should critically depend on the mandates and capacity of the RFA. Specifically, the roles of the Fund and the RFA in program design and monitoring (establishing the macroeconomic framework, BoP need, phasing, policy adjustment, and conditionality) need to reflect the respective mandates and policies of the Fund and the RFA, as well as the analytical capacity of the RFA (mandates and expertise).

- For RFAs without sufficient capacity for program design and monitoring, engagement will be mainly through information-sharing to ensure timely agreement on the financing need and sustainability of the policy adjustment package. In this context, the Fund would likely play a leading role in establishing the macroeconomic framework, conditionality and policies ("Lead agency" model). It is desirable to delegate to the Fund the initial draft of the statement of core aspects—economic and financial policies—of the program. This reflects the Fund's extensive global experience in program design (expertise) and need to ensure evenhandedness in programs across regions, and the membership more generally.
- For RFAs with developed capacity and experience with the design and monitoring of programs supported by a consistent macroeconomic framework and policies, more flexibility will be necessary. The Fund's policies require it to have ownership of the macroeconomic framework and the Debt Sustainability Analysis (i.e., independence). Nevertheless, engagement at an early stage of the design should facilitate smooth collaboration and help address differences (e.g., via early cooperation). Seeking a common view on key parameters and policies before the MEFP is discussed in the field would be useful in this regard.

***For more information:***

*Concordat on Fund-Bank Collaboration* (March 1989)

Strengthening IMF World Bank Collaboration on Country Programs and Conditionality (SM/01/219, Suppl. 1, Rev. 1, August 23, 2001)

Guidance Note on Fund-Bank Collaboration (FO/Dis/02/176)

G20 Principles for Cooperation between the IMF and Regional Financing Arrangements (IMF, 2011)

G20 Principles for effective coordination between the IMF and MDB in case of countries requesting financing while facing macroeconomic vulnerabilities (March 2017)

Collaboration between Regional Financing Arrangements and the IMF (IMF, 2017)

*Implementation Plan in Response to the Board-Endorsed Recommendations from the IEO Evaluation Report on IMF Collaboration with the World Bank on Macro-Structural Issues* (IMF, 2021)

*Guidance Note on Information Sharing Between IMF and World Bank Staff* (IMF, 2022)

Broad Principles for Bank-Fund Coordination in RST Operations (Annex III of Proposal to Establish a Resilience and Sustainability Trust, April 2022)

## U. Lapse-of-Time (LOT) Board Approval in the Context of Use of Fund Resources and PCI/PSI

**111. The Board can take routine decisions without discussion on a lapse of time (LOT) basis.** The LOT is used for decisions that are expected to be approved without difficulty, with the prime objective of streamlining the workload of the Board and allowing the Board the opportunity to focus on more strategic work. These decisions relate primarily to routine administrative matters and on issues where there has been a prior discussion of the substance of the decision already. However, use of LOT does not preclude completing reviews under an arrangement or concluding an Article IV consultation, provided the below criteria are met. The consent of the Executive Director for the member concerned is also required. At the same time, any Executive Director may object to the LOT procedure and request a Board meeting. The Director objecting to the LOT proposal may choose to communicate his/her objection and the relevant reasons for the objection to the whole Board by email, which would improve transparency and the flow of information to the Board.

**112.** While specific criteria are detailed below, an early engagement with SPR and SEC is critical for ensuring that the procedural criteria are assessed in a timely manner.

**113. Criteria for Program Reviews in the Context of Use of Fund Resources and PCI (see Selected Decisions A-13207):**

- The relevant arrangement does not involve exceptional access;
- The most recent program review under the relevant arrangement was not concluded on a lapse of time basis;
- The relevant review is to be completed under an ECF or an SCF arrangement and does not take place immediately after the completion of an ad-hoc review under an ECF or SCF arrangement pursuant to Section II, paragraph 2(h) of the PRGT instrument;
- The review to be completed does not raise general policy issues requiring Board discussion;
- All prior actions for the review have been met;
- The review does not introduce major changes in the objectives or design of the program, including but not limited to, an augmentation of access, major changes in conditionality for future reviews, the combination of future reviews envisaged under the arrangement, the rephasing of disbursements; or an augmentation of access other than augmentation of access not exceeding 25 percent of a member quota approved pursuant to Section II, paragraph 2(h) of the PRGT instrument;
- Performance under the member's program does not raise concerns as to whether the review should be completed, notably as a result of deviations, other than minor deviations, from the quantitative performance criteria and structural benchmarks.

**114. For Combined Article IV Consultations/Use of Fund Resources**:

- All criteria for both Article IV consultations and use of Fund resources must be met.

**115. For PPMs** (5) **:**

- As with Article IV consultations, a PPM discussion may be concluded on an LOT basis, if no major issues have arisen.

***For more information:***

Criteria for LOT proposal and its procedure are explained in Section VII of the Compendium of Executive Board procedures, while operational procedures are explained in SEC's LOT Guideline.

## V. Tools – MONA

**116. The Monitoring of Fund Arrangements (MONA) database, is an IMF-maintained database used to track comparable data on the economic objectives and outcomes of Fund-supported arrangements.** The MONA database covers most arrangements approved since 2002 to the present, and data are collected at the time of arrangement approval and following each review. This database allows internal and external users to get information on program design, compliance, and economic targets and developments. The main topics covered in the MONA database include: Description; Program Goals and Reform Strategies; Purchases; Reviews; Quantitative Performance Criteria (QPC); Structural Conditionality including structural conditions related to performance criteria (SPC), prior actions (PA) and program benchmarks (SB); and Macroeconomic variables.

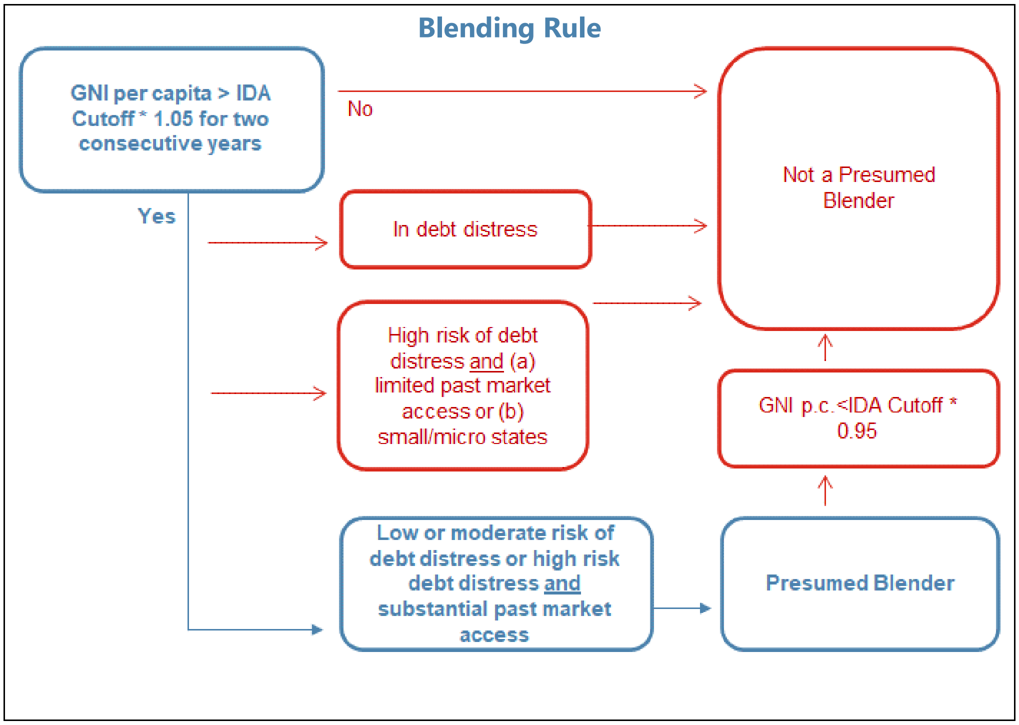
## W. Blending and Concurrent Use

**117. Blending is presumed for PRGT-eligible countries meeting established criteria**. A member is a presumed blender if it meets the following two criteria:

(1) Income: A member meets the income thresholds for presumed blending if its annual per capita gross national income (GNI) has exceeded the prevailing operational cutoff for assistance from the International Development Association (IDA) by at least 5 percent for two consecutive years (the "income threshold"). Once a member has met the income threshold, it shall be deemed to continue to meet the threshold unless its annual per capita GNI falls below 95 percent of the IDA operational cut-off.

(2) Absence of debt vulnerabilities that limit market access: A member that meets the income threshold as defined shall be presumed to blend unless it faces debt vulnerabilities that limit its access to international financial markets. A member will be considered to face debt vulnerabilities that limit its access to international financial markets if it is (i) in debt distress or (ii) at high risk of debt distress and either (a) does not meet the criterion of capacity to access international financial markets on a durable and substantial basis for the purpose of graduation from the PRGT eligibility or (b) is a "small country" or a "microstate."

- Generally, non-presumed blender LICs are advised to borrow from PRGT resources for all IMF financing, and in the case of access above normal access limits, the proposed arrangements must meet the PRGT EA criteria. For LICs that do not meet the presumed blending criteria and PRGT EA criteria, blending is always an option.




- Concurrent use of facilities and/or instruments is possible but subject to restrictions.
  - The ECF cannot be used concurrently with the SCF/or PCI. Any pre-existing SCF arrangement or PCI would need to be cancelled before an ECF arrangement can be approved, and vice versa. A member cannot obtain RCF/RFI financing (or start an SMP) if an ECF arrangement is in place and on track.
  - PCI can be used concurrently with SCF/SBA if short-term BoP needs arise over the course of the PCI, or concurrently with RCF/RFI if the BoP need is urgent. An on-track PCI could expedite access to Fund financing in the event of a member's BoP need, subject to normal Fund policies on use of Fund resources.
  - RCF financing during an SCF arrangement can only be provided when (i) SCF disbursements are not possible, for instance due to policy slippages or delays in program discussions; (ii) qualification requirements for the RCF are met, including the existence of an urgent balance of payments need and relevant policy commitments; and (iii) the balance of payments need is primarily caused by a sudden exogenous shock.

***For more information:***

*2021 Policy Coordination Instrument - Operational Guidance Note* (IMF, 2021)

*Fund Concessional Financial Support For Low-Income Countries—Responding To The Pandemic* (IMF, 2021)

## X. Tools to Gauge the Realism of Program Baseline

*Macroeconomic realism matters for program success. Various tools, such as those embedded in debt sustainability frameworks and forecast evaluation tools, are available to staff to scrutinize baseline assumptions and achieve more realistic projections.*

**118. Realism tools embedded in DSFs**.[134] The LIC-DSF and SRDSF offer a suite of realism tools intended to illuminate the main assumptions underlying program projections. They are designed to encourage scrutiny of key drivers of public debt and flag optimism or pessimism by comparing macroeconomic framework features with cross-country and historical experience.

- **LIC-DSF realism tools**.
  - *Drivers of debt dynamics.* The tool presents a breakdown of past and projected drivers of external and public debt dynamics and the composition of past forecast errors. Significant differences between past and projected debt creating flows, and high unexpected changes in public debt in the past may warrant explanation.
  - *Realism of planned fiscal adjustment.* The tool presents the distribution of observed primary fiscal adjustment of LICs with Fund-supported programs, against which a country's projected primary fiscal adjustment is compared. It flags potential optimism when the projected adjustment lies in the upper quartile of the distribution.
  - *Consistency between fiscal adjustment and growth.* The tool checks the consistency between fiscal adjustment and growth assumptions, flagging optimism/pessimism when the projected growth path deviates from the path derived using a typical multiplier in a LIC.
  - *Consistency between public investment and growth.* The tool assesses the consistency between growth and public investment assumptions using growth accounting and comparing current and previous projections for public and private investment.
- **SRDSF realism tools**.
  - *Forecast track record of debt drivers.* The tool examines risks to projections that might arise from past forecast errors of public debt and its drivers vis-à-vis a relevant comparator group.

[134] See the Guidance Note on the Bank-Fund Debt Sustainability Analysis for Low-Income Countries (LIC-DSF) and the Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market-Access Countries (SRDSF).

- *Drivers of public debt.* The tool presents a breakdown of past and projected drivers of public debt dynamics. Large shifts in debt drivers (e.g., a drop in the contribution from the real growth-interest differential) would flag risks to projections.
- *Distribution of changes in debt-to-GDP ratios.* The tool displays a distribution of observed changes in debt-to-GDP ratios over a three-year horizon, with which a country's projected change in debt-to-GDP ratio would be compared. Projections of a debt reduction that are greater than the 75th percentile of all the reductions in the sample, would suggest potential over-optimism.
- *Distribution of fiscal adjustments.* The tool displays a distribution of fiscal adjustments (three-year change in cyclically adjusted primary balance), with which a country's projected adjustment would be compared. The tool signals an issue if the projected adjustment is larger than (i) the 75th percentile of the cross-country database, or (ii) the maximum of the country's own historical adjustments.
- *Real effective exchange rate (REER) projections.* The tool checks whether REER projections are optimistic by generating a path from an initial REER misalignment estimate. An initial over- or under-valuation that was not unwound (i.e., a gap that exceeds ± 5 percent) would trigger greater scrutiny of exchange rate assumptions. This tool is not published and only included in policy notes.
- *Real GDP growth.* The tool compares real GDP growth projections with potential growth projections, output gap and the historical average growth. Signs of optimism would arise if the output gap without fiscal stimulus is positive at the end of the projection period or there is a significant increase in real growth over the projection period relative to the historical average.
- *Output gap revisions.* The tool calculates output gap revisions from historical data and assesses optimism in potential output projections. Output gap revisions above the 75th percentile of the distribution would indicate negative bias in output gap projections.
- *Consistency between fiscal adjustment and growth.* The tool compares the impact of the planned fiscal adjustment on growth with the baseline growth path. Large discrepancies between the baseline and growth implied by fiscal adjustment paths (e.g., a growth pickup during a consolidation) trigger a realism flag.
- *External bond issuances.* The tool assesses the realism of new external issuance assumptions based on the history of issuances and by comparing assumed spreads with those implied by the Laubach rule.[135] A shift towards long maturities or a compression in spreads during a debt accumulation would flag a realism problem.

[135] The Laubach rule links changes in spreads with changes in debt-to-GDP ratios.

**119. Stress tests embedded in DSFs**.[136] The LIC-DSF and SRDSF include stress tests to help gauge the sensitivity of projected debt burden indicators to changes in assumptions.

- **LIC-DSF stress tests**. These include:
  - *Standardized stress tests.* They apply to all LICs and consist of six stress tests applying to both the external and public DSA. In standardized stress tests, variables such as real GDP growth, the primary balance, exports, current transfers and FDI, and exchange rate depreciation are subject to a shock and the post-shock values set to the baseline projection (or, if lower, the historical average) minus one standard deviation.
  - *Tailored stress tests.* They consider risks that are common to only some sets of countries. For instance, the contingent liability stress test is tailored based on country-specific circumstances, for e.g., to capture vulnerabilities from SOE debt and PPPs. Other tailored stress tests apply to countries exposed to specific risks such as natural disasters, volatile commodity prices, and market financing pressures.
  - *Fully customized stress tests.* They are optional and can be used where relevant to capture idiosyncratic risks not covered by the DSA template, such as civil war and large delays in investment projects.
- ***SRDSF stress tests.*** The SRDSF includes stress-tests that simulate debt and gross financing needs (GFN) paths under vulnerabilities from (i) contingent liabilities related to a narrow public debt coverage, (ii) banking crisis, (iii) natural disasters, (iv) commodity price shocks and (v) REER shocks. These tests are triggered, as certain conditions need to be met to be included in the analysis and inform judgment of medium-term risks for factors that may not be well captured by the core mechanical tools rather than act as a sensitivity analysis of the baseline.

**120. Forecast evaluation tools**.

- ***Country Forecast Performance Analysis tool.*** The tool produces evaluation reports intended to help improve the accuracy of desk projections based on an analysis of past forecast performance by (i) evaluating growth, inflation, and external balance projections to identify potential forecast errors; (ii) comparing projections with historical outturns to highlight discrepancies between forecasts and history for a given country and for its comparator group. The tool is updated twice a year with the release of the World Economic Outlook (WEO).
- ***Country Data Annex (CoDA) tool.*** CoDA is an Excel-based tool that runs an automatic comparison on a list of variables from the macroeconomic framework of the review document to that of the latest published staff report and latest WEO submission. Differences in projections are quantified and depicted in a dashboard of panel charts. The tool is expected to be made

[136] See the Guidance Note on the Bank-Fund Debt Sustainability Analysis for Low-Income Countries (LIC-DSF) and the Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market-Access Countries (SRDSF).

available to all desks by end-FY24 and should allow performing consistency checks, identifying large deviations early on, and making corrections as warranted.

**121. Other tools**.

- ***Debt-Investment-Growth (DIG)-type models.*** The DIG model was developed to assess the macroeconomic effects of public investment scaling-ups,[137] with its various extensions accommodating country specificities. Notably, the DIGNAD model can help assess funding needs, especially related to the deployment of RST funds (see Bangladesh and Rwanda as case examples).[138]
- ***Fiscal multiplier tool.*** This Excel-based tool allows integrating the impact of fiscal shocks into growth projections, in particular the persistence of the effect on growth.
- ***GaR (Growth-at-Risk) tool.*** The tool quantifies risks to future GDP growth stemming from macro-financial factors. It provides an assessment of the entire medium-term probability distribution of growth to gain a better understanding of upside and downside risks, including those associated with fat tails. As such, it contributes to heightened scrutiny of baseline growth projections.

[137] See Buffie et al. (2012).

[138] DIG extensions include (i) Debt, Investment, Growth, and Natural Resources (DIGNAR) which is well-suited for economies with a large natural-resource sector (see Melina et al., 2016); (ii) DIGNAR-19 which captures shocks from the COVID-19 crisis, including pandemic-related declines in labor supply, a collapse in oil prices, and disruptions in trade and remittances; (iii) DIG-Labor which incorporates segmented labor markets to assess the macro impact of different mixes of investment in human capital and infrastructure and (iv) DIGNAD, which allows for policy scenario analysis under a natural disaster shock. See Gurara et al. (2019) for a stock-tacking of DIG and DIGNAR applications.

# References

Akitoby, B., et al., 2018, "Tax Revenue Mobilization Episodes in Emerging Markets and Low-Income Countries: Lessons from a New Dataset," IMF Working Paper No. 2018/234 (Washington)

Andritzky, J, Munkacsi, Z., and Wang, K., 2021, "How to Gain the Most from Structural Conditionality of IMF-Supported Programs," IMF Working Paper No. 21/139 (Washington)

Andritzky., 2014, "Resolving Residential Mortgage Distress: Time to Modify?" IMF Working Paper No. 14/226 (Washington)

Araujo, J., et al., 2022, "Policy Options for Supporting and Restructuring Firms Hit by the COVID-19 Crisis," IMF Departmental Paper No. 2022/002 (Washington)

Baum, et al., 2019, "Governance and State-Owned Enterprises: How Costly is Corruption?" IMF Working Paper No. 2019/253 (Washington)

Bennett, A., Borensztein, E., and Balino, J. T., 1999, "Monetary Policy in Dollarized Economies" IMF Occasional Paper No. 171 (Washington)

Buffie, E., et al., 2012, "Public Investment, Growth, and Debt Sustainability: Putting Together the Pieces," IMF Working Paper No. 16/36 (Washington)

Bunda, I., Eyraud, L., and Wang, Z., 2021, "How to Assess the Benefits of Nonperforming Loan Disposal in Sub-Saharan Africa Using a Simple Analytical Framework," IMF How-To Note No 2021/006 (Washington)

Carriere-Swallow, Y., and Marzulf, J., 2021, "Macrofinancial Causes of Optimism in Growth Forecasts," IMF Working Paper No. 2021/275 (Washington)

Cebotari, A., et al., 2008, "Fiscal risks: sources, disclosure, and management," IMF Fiscal Affairs Department (Washington)

Culiuc, A., and Kyobe, A., 2017, "Structural Reforms and External Rebalancing," IMF Working Paper No. 2017/182 (Washington)

Dell'Ariccia, G., et al., 2018, "Trade-offs in Bank Resolution," IMF Staff Discussion Notes No. 2018/002 (Washington)

Dordevic, L., et al., 2021, "Strengthening Bank Regulation and Supervision: National Progress and Gaps," Departmental Paper No. 2021/005 (Washington)

Escolano et al., 2014, "How much is a lot? Historical Evidence on the Size of Fiscal Adjustments," IMF Working Paper No. 2014/179 (Washington)

Ferreira, C., Jenkinson, N., and Wilson, C., 2019, "From Basel I to Basel III: Sequencing Implementation in Developing Economies," IMF Working Paper No. 2019/127 (Washington)

Flynn, S., Moretti, D., and Cavanagh, J., 2016, "Prevention and Management of Government Arrears," IMF Technical Notes and Manuals No. 2016/006 (Washington)

Flynn, S., and Pessoa, M., 2014, "Implementing Accrual Accounting in the Public Sector," IMF Technical Notes and Manuals No. 2014/003 (Washington)

Garcia-Escribano, M., and Liu, C., 2017, "Expenditure Assessment Tool," IMF Technical Notes and Manuals No. 17/06 (Washington)

Gurara, D., et al., 2019, "Some Policy Lessons from Country Applications of the DIG and DIGNAR Model," IMF Working Paper No. 2019/062 (Washington)

Guzman, M., Ocampo, J.A., and Stiglitz, J. (editors), 2016, "Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises," Initiative for Policy Dialogue at Columbia: Challenges in Development and Globalization (New York: Columbia University Press)

Independent Evaluation Office of the International Monetary Fund (IEO), 2021, "Growth and Adjustment in IMF-Supported Programs," (Washington)

International Monetary Fund, 2023, "Handbook of IMF Facilities for Low-Income Countries," Policy Paper No. 2023/020 (Washington)

———,2023, "Resilience and Sustainability Facility—Operational Guidance Note," Policy Paper No. 2023/051 (Washington)

———,2023, "Review of the Policy Coordination Instrument and Proposal to Eliminate the Policy Support Instrument," Policy Paper No. 2023/040 (Washington)

———,2023, "Review of the Flexible Credit Line, The Short Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform," Policy Paper No. 2023/039 (Washington)

———,2023, "Ghana: Request for an Arrangement Under the Extended Credit Facility," Country Report No. 2023/168 (Washington)

———,2023, "Staff Guidance Note on Information Sharing in The Context of Sovereign Debt Restructurings," Policy Paper No. 2023/027 (Washington)

———,2023, "Review of Implementation of The 2018 Framework for Enhanced Fund Engagement on Governance," Policy Paper No. 2023/015 (Washington)

———,2023, "Staff Guidance Note on The Implementation of The IMF Strategy for Fragile and Conflict-Affected States (FCS)," Policy Paper No. 2023/010 (Washington)

———,2023, "Changes to the Fund's Financing Assurances Policy in the Context Of Fund Upper Credit Tranche (UCT) Financing Under Exceptionally High Uncertainty," Policy Paper No. 2023/007 (Washington)

———,2023, "Temporary Modifications to The Fund's Annual and Cumulative Access Limits," Policy Paper No. 2023/005 (Washington)

———,2022, "Ecuador: Sixth Review under the Extended Arrangement under the Extended Fund Facility and Financing Assurances Review," Country Report No. 2022/378 (Washington)

———,2022, "Safeguards Assessments - 2022 Review of Experience," Policy Paper No. 2023/058 (Washington)

———,2022, "Staff-Monitored Programs—Updated Operational Guidance Note," Policy Paper No. 2023/048 (Washington)

———,2022, "Proposal for a Staff-Monitored Program with Executive Board Involvement," Policy Paper No. 2023/041 (Washington)

———,2022, "Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries," Policy Paper No. 2022/039 (Washington)

———,2022, "IMF Strategy Toward Mainstreaming Gender," Policy Paper No. 2023/037 (Washington)

———,2022, "Review of the Fund's Policy on Multiple Currency Practices–Proposals for Reform," Policy Paper No. 2023/036 (Washington)

———,2022, "Guidance Note for Surveillance Under Article IV Consultations," Policy Paper No. 2022/029 (Washington)

———,2022, "Poverty Reduction and Growth Trust—Guidance Note on New Enhanced Safeguards for Debt Sustainability and Capacity to Repay," Policy Paper No. 2023/028 (Washington)

———,2022, "Implementation Plan in Response to The Board - Endorsed Recommendations from The IEO Evaluation Report on Growth and Adjustment in IMF-Supported Programs," Policy Paper No. 2022/024 (Washington)

———,2022, "Reviews of the Fund's Sovereign Arrears Policies and Perimeter," Policy Paper No. 2022/023 (Washington)

———,2022, "Proposal To Establish A Resilience and Sustainability Trust," Policy Paper No. 2022/013 (Washington)

———,2022, "Review of The Institutional View on The Liberalization and Management of Capital Flows," Policy Paper No. 2022/008 (Washington)

———,2022, "IMF Engagement on Social Safety Net Issues in Surveillance and Program Work," Policy Paper No. 2022/007 (Washington)

———,2022, "IMF Engagement on Pension Issues in Surveillance and Program Work," Policy Paper No. 2022/004 (Washington)

———,2022, "Guidance Note on Information Sharing Between IMF and World Bank Staff," Policy Paper No. 2022/003 (Washington)

———,2021, "Fund Concessional Financing for Low-Income Countries—Responding to the Pandemic," Policy Paper No. 2021/064 (Washington)

———,2021, "Implementation Plan in Response To The Board-Endorsed Recommendations From The IEO Evaluation Report On IMF Collaboration With The World Bank On Macro-Structural Issues," Policy Paper No. 2022/024 (Washington)

———,2021, "Guidance Note On Implementing The Debt Limits Policy In Fund Supported Programs," Policy Paper No. 2021/037 (Washington)

———,2021, "Post Program Monitoring During The Pandemic: Proposal For Temporary Streamlining Of Procedures And Renaming Of The Policy," Policy Paper No. 2021/026 (Washington)

———,2020, "Reform of the Policy on Public Debt Limits in IMF-Supported Programs," Policy Paper No. 2021/061 (Washington)

———,2020, "Policy Safeguards for Countries Seeking Access to Fund Financial Support That Would Lead to High Levels of Combined GRA–PRGT Exposure," Policy Paper No. 2020/039 (Washington)

———,2020, "Streamlining Procedures for Board Consideration of The Fund's Emergency Financing During Exceptional Circumstances Involving A Pandemic," Policy Paper No. 2020/019 (Washington)

———,2020, "Eligibility to Use the Fund's Facilities for Concessional Financing," Policy Paper No. 2020/016 (Washington)

———,2020, "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers," Policy Paper No. 2020/010 (Washington)

———,2020, "Fund's Pandemic Response—Lending Options to Support Members During the Next Stage of the Crisis," SM/20/141 (Washington)

———,2019, "Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism, Policy Paper No. 2019/025 (Washington)

———,2019, "A Strategy for IMF Engagement on Social Spending," Policy Paper No. 2019/016 (Washington)

———,2019, "2018-19 Review of Facilities for Low-Income Countries—Reform Proposals: Review Of The Financing Of The Fund's Concessional Assistance And Debt Relief To Low-Income Member Countries," Policy Paper No. 2019/014 (Washington)

———,2019, "2018 Review of Program Design and Conditionality," Policy Paper No. 2019/012 (Washington)

———,2019, "The Political Costs of Reforms: Fear or Reality?," Staff Discussion Note No. 2019/008 (Washington)

———,2019, "Pakistan: Request for an Extended Arrangement Under the Extended Fund Facility," Country Report No. 2019/202 (Washington)

———,2019, "Request for Stand-By Arrangement and Cancellation of Arrangement Under the Extended Fund Facility," Country Report No. 2019/003 (Washington)

———,2019, "Designing Labor Market Institutions in Emerging and Developing Economies: Evidence and Policy Options," Staff Discussion Note No. 2019/004 (Washington)

———,2019, World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers, October 2019, Chapter 3: Reigniting Growth in Emerging Market and Low-Income Economies: What Role for Structural Reforms? (Washington)

———,2019, Fiscal Monitor: Curbing Corruption, April 2019, Chapter 2: Curbing Corruption (Washington)

———,2019, Financial Indicators Soundness Guide, (Washington)

———,2018, "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," Policy Paper No. 122617 (Washington)

———,2018, World Economic Outlook: Cyclical Upswing, Structural Change, April 2018 (Chapter 2: Labor Force Participation in Advanced Economies: Drivers and Prospects and Chapter 3: Manufacturing Jobs: Implications for Productivity and Inequality)

———,2018, "Program Design in Currency Unions," Policy Paper No. 082818 (Washington)

———,2018, "Flexible Credit Line - Operational Guidance Note," Policy Paper No. 080618 (Washington)

———,2018, "Precautionary and Liquidity Line - Operational Guidance Note," Policy Paper No. 080618 (Washington)

———,2018, "Guidance Note on the Use of Third Party Indicators in Fund Reports," Policy Paper No. 071718 (Washington)

———,2018, Fiscal Transparency Handbook

———,2018, Regional Economic Outlook: Sub-Saharan Africa—Domestic Revenue Mobilization and Private Investment, May 2018 (Chapter 2: Domestic Revenue Mobilization in Sub-Saharan Africa: What Are the Possibilities?)

———,2018, "Public Investment Management Assessment—Review and Update," Policy Paper No. 042518 (Washington)

———,2018, "Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement," Policy Paper No. 030918 (Washington)

———,2018, "Guidance Note on Letters and Statements Assessing Members' Economic Conditions and Policies," Policy Paper No. 013018 (Washington)

———,2018, "Cameroon: Third Review Under the Extended Credit Facility Arrangement and Requests for a Waiver of Nonobservance of a Performance Criterion and Modification of Performance Criteria," Country Report No. 2018/378 (Washington)

———,2017, "Safeguards Assessment - 2017 Update," Policy Paper No. 100617 (Washington)

———,2017, "Adequacy of the Global Financial Safety Net--Proposal for a New Policy Coordination Instrument," Policy Paper No. 072717 (Washington)

———,2017, "Review of the Fund's Strategy on Overdue Financial Obligations," Policy Paper No. 072017 (Washington)

———,2017, "Second Review of the Implementation of Government Finance Statistics Framework to Strengthen Fiscal Analysis," Policy Paper No. 050917 (Washington)

———,2017, "Guidance Note on Post Program Monitoring," Policy Paper No. 020317 (Washington)

———,2017, "Gone with the Headwinds: Global Productivity," Staff Discussion Notes No. 2017/004 (Washington)

———,2017, "Labor and Product Market Reforms in Advanced Economies: Fiscal Costs, Gains, and Support," Staff Discussion Notes No. 2017/003 (Washington)

———,2016, "Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations," Policy Paper No. 102416 (Washington)

———,2016, "Staff Guidance Note for the Conduct of Ex Post Peer Reviewed Assessments of Members with Longer-Term Program Engagement," Policy Paper No. 081116 (Washington)

———,2016, "Staff Note for the G20—A Guiding Framework for Structural Reforms" (Washington)

———,2016, World Economic Outlook: Too Slow for Too Long, April 2016 (Chapter 2: Understanding the Slowdown in Capital Flows to Emerging Markets)

———,2016, "Corruption Costs and Mitigating Strategies," Staff Discussion Notes No. 2016/005 (Washington)

———,2016, Fiscal Monitor: Acting Now, Acting Together, April 2017 (Chapter 2: Fiscal Policies for Innovation and Growth)

———,2016, "Strengthening the Framework for Post Program Monitoring," Policy Paper No. 060316 (Washington)

———,2016, "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations," Policy Paper No. 060316 (Washington)

———,2016, "Review of Access Limits and Surcharge Policies," Policy Paper No. 012016 (Washington)

———,2015, "Financial Inclusion: Can It Meet Multiple Macroeconomic Goals?" IMF Staff Discussion Notes No. 2015/017 (Washington)

———,2015, "Managing Capital Outflows - Further Operational Considerations," Policy Paper No. 120315 (Washington)

———,2015, "Crisis Program Review," Policy Paper No. 110915 (Washington)

———,2015, "Reforming the Fund's Policy on Non-Toleration of Arrears to Official Creditors," Policy Paper No. 101515 (Washington)

———,2015, "Safeguards Assessments - Review of Experience," Policy Paper No. 092315 (Washington)

———,2015, "Making Public Investment More Efficient," Policy Paper No. 061115 (Washington)

———,2015, "Reform of the Fund's Policy on Poverty Reduction Strategies in Fund Engagement with Low-Income Countries – Proposals," Policy Paper No. 052615 (Washington)

———,2015, "The Fund's Lending Framework and Sovereign Debt-Further Considerations," Policy Paper No. 040915 (Washington)

———,2015, World Economic Outlook: Uneven Growth, April 2015 (Chapter 3: "Where Are We Headed? Perspectives on Potential Output")

———,2015, "Causes and Consequences of Income Inequality: A Global Perspective," Staff Discussion Notes No. 2015/013 (Washington)

———,2015, "The New Normal: A Sector-Level Perspective on Productivity Trends in Advanced Economies," Staff Discussion Notes No. 2015/03 (Washington)

———,2014, "Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines," Policy Paper No. 072314 (Washington)

———,2014, "Fiscal Multipliers: Size, Determinants, and Use in Macroeconomic Projections" Technical Notes and Manuals No. 2014/04 (Washington)

———,2014, "Updated Guidance Note on the Fund's Transparency Policy," Policy Paper No. 040714 (Washington)

———,2014, "Conditionality in Evolving Monetary Policy Regimes," Policy Paper No. 030514 (Washington)

———,2013, "Guidance Note for the Liberalization and Management of Capital Flows," Policy Paper No. 042513 (Washington)

———,2013, "Energy Subsidy Reform: Lessons and Implications," Policy Paper No. 122813 (Washington)

———,2012, Fiscal Monitor: Balancing Fiscal Policy Risks , April 2012 (Chapter 1: Balancing Fiscal Policy Risks)

———,2012, "The Liberalization and Management of Capital Flows - An Institutional View," Policy Paper No. 111412 (Washington)

———,2012, "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries," Policy Paper No. 082412 (Washington)

———,2010, "Staff Guidance Note on the Use of Fund Resources for Budget Support," Policy Paper No. 032310 (Washington)

———,2010, "The Fund's Mandate—The Legal Framework," Policy Paper No. 022210 (Washington)

———,2010, "Ex Post Evaluations of Exceptional Access Arrangements—Revised Guidance Note," Policy Paper No. 022510 (Washington)

———,2009, "Creating Policy Space—Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs," Policy Paper No. 091009 (Washington)

———,2009, "A New Architecture of Facilities for Low-Income Countries," Policy Paper No. 062609 (Washington)

———,2009, "GRA Lending Toolkit and Conditionality—Reform Proposals," Policy Paper No. 031309 (Washington)

———,2009, "Conditionality in Fund-supported Programs—Purposes, Modalities, and Options for Reform," Policy Paper No. 012909 (Washington)

———,2008, "Revisions to the Operational Guidance Note on Conditionality," Policy Paper No. 071008 (Washington)

———,2006, "Fiscal Adjustment for Stability and Growth," IMF Pamphlet series; No. 55 (Washington)

———,2006, "Precautionary Arrangements - Purposes and Performance," Policy Paper No. 032306 (Washington)

———,2006, "Statement of the IMF Staff: Principles Underlying the Guidelines on Conditionality, Revised January 9, 2006," SM/06/12 (Washington)

———,2005, "Strengthening the Fund's Ability to Assist Low-Income Countries Meet Balance of Payments Needs Arising from Sudden and Exogenous Shocks," Policy Paper No. 061005 (Washington)

———,2004, "Review of Exceptional Access Policy," Policy Paper No. 032304 (Washington)

———,2004, "The Fund's Support of Low-Income Member Countries: Considerations on Instruments and Financing," Policy Paper No. 022404 (Washington)

———,2003, "Strengthening the Effectiveness of Article VIII, Section 5—Revised Proposed Decision," SM/03/386, 11/26/03 and Cor. 1, 12/09/03 (Washington)

———,2003, "Conclusions of the Task Force on Prolonged Use of Fund Resources," Policy Paper No. 020403 (Washington)

———,2003, "Access Policy in Capital Account Crises- Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy," Policy Paper No. 2003/003 (Washington)

———,2002, "Guidelines on Conditionality" Decision No. 12864-(02/102), September 25, 2002, as amended by Decision No. 13814-(06/98), November 15, 2006 (Washington)

———,1985, "Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guidelines," Decision No. 7925-(85/38), March 8, 1985, as amended by Decision Nos. 8887-(88/89), June 6, 1988, and 14281-(09/29), March 24, 2009, and 15017-(11/112), November 21, 2011Decision No. EBS/83/233, Cor. 1 (Washington)

———,1983, "Criteria for the Amount of Access in Individual Cases," EBS/83/233, Cor. 1 (Washington)

———,1980, "Enlarged Access to Fund Resources," EBS/80/262 (Washington)

Jassaud, N., and Hesse, H., 2013. "European Union: Publication of Financial Sector Assessment Program Documentation—Technical Note on Progress with Bank Restructuring and Resolution in Europe," IMF Country Report No. 2013/067, Washington

Laeven, L., and Valencia, F., 2018. "Systemic Banking Crises Revisited," IMF Working Paper No. 18/206 (Washington)

Liu, Y., Garrido, J., and DeLong, C., 2020. "Private Debt Resolution Measures in the Wake of the Pandemic," IMF Special Series on COVID-19 (Washington)

Liu, Y., and Garcia-Escribano, M., 2017, "Expenditure Assessment Tool," IMF Technical Notes and Manuals No. 2017/006 (Washington)

Medina Cas, S., and Peresa, I., 2016, "What Makes a Good 'Bad Bank'? The Irish, Spanish and German Experience," EU Discussion Paper 36 (Brussels)

Melina, G., Yang, S., and Zanna, L., 2016, "Debt Sustainability, Public Investment and Natural Resources in Developing Counties: the DIGNAR Model," *Economic Modelling*, 52, 630-649.

Moretti, M., Dobler, M., and Piris Chavarri, A., 2020, "Managing Systemic Banking Crises: New Lessons and Lessons Relearned," IMF Departmental Paper No. 2020/003 (Washington)

Nolte, J., and Hoelscher, D., 2020, "Using the FSD Key Attributes to Design Bank Resolution Frameworks for Non-FSB Members: Proportionality and Implementation Challenges, World Bank (Washington)

Ong, L., and Pazarbasioglu, C., 2013, "Credibility and Crisis Stress Testing," IMF Working Paper No. 13/178 (Washington)

Quintyn, M. G., and Hoelscher, D. S., 2003, "Managing Systemic Banking Crises," IMF Occasional Paper No. 2003/005 (Washington)

Shi, Min and Svensson, Jakob, 2006, "Political Budget Cycles: Do they differ across countries and why?" Journal of Public Economics 90 (2006 1367-1389)

Stankova, Olga, 2019, "Frontiers of Economic Policy Communications" IMF Departmental Paper No. 2019/008 (Washington)

Sturzenegger, Federico and Jeromin Zettelmeyer, 2006, "Debt Defaults and Lessons from a Decade of Crises" (Cambridge: MIT Press)

Unsal, F., Papageorgiou, C., and Garbers, H., 2022, "Monetary Policy Frameworks: An Index and New Evidence," IMF Working Paper No. 2022/022 (Washington)

Yackovlev, I., et al. "How to Operationalize IMF Engagement on Social Spending during and in the aftermath of the COVID-19 Crisis," IMF How-To Note No. 2020/002 (Washington)