Pacific Island Countries: IMF Financing Options

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IMF LENDING FOR PACIFIC ISLAND MEMBERS

- IMF Loans to Members
- Purpose of IMF Lending
- Types of IMF Arrangements
- Content of Economic Programs

IMF Loans to Members

IMF LENDING

- The IMF lends to members with balance of payments problems to support the member's economic reform program.

- Two sources of funding for IMF loans, and the interest rate, maturity, and some other aspects of the lending differ along with the source of funds.
  - All members can borrow from the IMF's general (quota) resources.
  - There is also the Poverty Reduction and Growth Trust Fund for subsidized loans for designated low-income members with lower (or zero) interest rates and longer maturities.

Purposes of IMF Lending

PURPOSES OF IMF LENDING

- IMF Lending is for balance of payments support.
- Balance of payments support can overlap with budget support, but the budget financing must be linked to the balance of payments.
- IMF lending is not linked to capital investment or other projects.

PURPOSES OF IMF LENDING

- IMF loans support an adjustment program designed to restore balance of payments stability.
- Long-run stability also requires debt sustainability.
- The adjustment program is designed to stabilize the member's economy and ensure that it has the capacity to repay the IMF.

Types of IMF Arrangements

Three types of IMF-supported programs and financing

- **Funds for Short-term Problems While Reforms Take Hold**
  - Standby Arrangements (SBA)
  - Standby Credit Facility (SCF))

- **Three-Year Programs for Longer-term Problems and More Extensive Reform Programs with Longer Maturities.**
  - Extended Credit Facility (ECF)
  - Extended Financing Facility (EFF)

- **Rapid Assistance in Limited Amounts for Shocks and to Build a Path to More Extensive IMF Support**
  - Rapid Credit Facility (RCF)
  - Rapid Financing Instrument (RFI)

Content of Reform Programs

Members' Programs Support Members' Economic Goals

- **Programs are based on <u>national goals</u> including national development plans and Poverty Reduction Strategies.**

- **Programs are focused on those aspects of a member's program that are both <u>critical</u> to the program and <u>within the IMF's areas of expertise</u>.**

- **Programs are coordinated and supported by <u>IMF technical assistance</u>.**

- **IMF programs coordinate with other <u>development partners</u> for assistance <u>in areas outside of the IMF's expertise</u>.**

Specific Content of Programs

- **Programs are set out in the member's Letter of Intent.**
- **Programs have quantitative targets for macroeconomic stability.**
- **Programs have structural reforms to support growth and poverty reduction and help build capacity.**

Program Content: Macroeconomics

- **Quantitative targets for macroeconomic stability including possibly:**
  - **Ceiling on budget deficit,**
  - **Limits on credit growth,**
  - **Targets for priority poverty-related spending, and**
  - **Floors on international reserves.**

Program Content: Structural Reform

- **Structural reforms to <u>support growth and poverty reduction</u> and <u>build capacity</u> in IMF core areas of expertise including:**
  - **Public financial management,**
  - **Tax administration,**
  - **Fiscal transparency, and**
  - **Debt and reserves management.**

Thank You!

SUPPLEMENTARY SLIDES IF NEEDED

Medium-Term Programs

Extended Credit Facility (ECF) and Extended Arrangements (EA)

- Longer-term programs (3 years) to address longer-term macroeconomic and structural problems with conditions to restore sustainability.

- Same standard of program strength as SBA of SCF-supported programs.

- Programs have a significant structural reform content.

- Longer Maturity (10 year).

Standby Arrangement (SBA) and Standby Credit Facility (SCF)

- Funding for short-term problems while reforms take hold
- These support 1-2 year reform programs with strong economic policies and adjustment measures
- Key elements of the program are included in “conditionality”
- SBA and SCF supported program are intended to be one-off rather than repeat events

Emergency Lending

Rapid Financing Instrument Arrangement (RFI) and Rapid Credit Facility (RCF)

- Emergency programs address:
  - Exogenous shocks; and
  - Circumstances in which a member doesn’t have capacity to implement other programs, as a bridge to such a program.
- Amount of lending is usually lower than other facilities
- No formal ex post conditionality

Two Sources of IMF financing

- **General Resources Account**
  - Floating interest rates based on SDR basket treasury bill rates plus a margin (current rate is 1.37 percent but could go higher).
  - Most facilities have five year maturity with 3.25 year grace period.
- **Poverty Reduction and Growth Trust**
  - Reserved for low-income countries.
  - Interest rates no higher than 0.5 or 0.75 percent (currently zero for most).
  - Maturity of at least 8 years (mostly 10 years) with grace periods of 4 to 5.5 years.
  - The eligible PICs are Kiribati, Papua-New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu.

Special rules

- Small countries
  - Higher income limits for graduation and entry
- Blending
  - Countries above World Bank IDA limit normally mix GRA and PRGT financing in programs, although not for countries at high risk of debt distress.
  - This could include Kiribati, Papua-New Guinea, Samoa, Tonga, and Vanuatu based on the income criterion.

Pacific Island Countries: Data Relevant to Financing

	PRGT eligible	2010 Per Capita GNI	Blend Candidate	Quota (SDR millions)	Quota (US$ million)	Small country	Graduation Candidate	Entry Candidate
Fiji	No	3610	n.a.	70.3	110.9	Yes	n.a.	No
Kiribati	Yes	2010	Yes	5.6	8.8	Yes	No	n.a.
Marshall Islands	No	2990	n.a.	3.5	5.5	Yes	n.a.	No
Micronesia	No	2700	n.a.	5.1	8.0	Yes	n.a.	No
Palau	No	6460	n.a.	3.1	4.9	Yes	n.a.	No
Papua-New Guinea	Yes	1300	Yes	131.6	207.6	No	No	n.a.
Samoa	Yes	2930	Yes	11.6	18.3	Yes	No	n.a.
Solomon Islands	Yes	1030	No	10.4	16.4	Yes	No	n.a.
Tonga	Yes	3380	Yes	6.9	10.9	Yes	No	n.a.
Tuvalu	No	4670	n.a.	1.8	2.8	Yes	n.a.	No
Vanuatu	Yes	2760	Yes	17.0	26.8	Yes	No	n.a.
IDA Operational Cutoff	1175	(x2) 2350		(x3) 3525				

Pacific Island Countries: IMF Facilities 1/

Facility or Instrument	Purpose and Qualificiation	PRSP Needed	Possible PICs Users
Facilities for All Members Including for PRGT/GRA Blends			
Stand-By Arrangement (SBA)	To support countries with temporary adjustment need. Involves a BOP need (possibly potential) and an upper-credit-tranche (UCT) policy standard.	No	Fiji, Marshall Islands, Micronesia, Palau, and Tuvalu (on a standalone basis); Kiribati, Papua-New Guinea, Samoa, Tonga, and Vanuatu (in a blend with the SCF)
Extended Fund Facility (EFF)	BOP need (actual) and an UCT policy standard. EFFs are intended to address longer-term structural reform needs and debt issues. Not available on a precautionary basis.	No	Fiji, Marshall Islands, Micronesia, Palau, and Tuvalu (on a standalone basis); Kiribati, Papua-New Guinea, Samoa, Tonga, and Vanuatu (in a blend with the ECF)
Rapid Financing Instrument (RFI)	Addressing urgent balance of payments needs that, if not addressed, would result in an immediate and severe economic disruption. This instrument replaced the Emergency Assistance for natural disasters and Emergency Post-Conflict Assistance.	No	Fiji, Marshall Islands, Micronesia, Palau, and Tuvalu (on a standalone basis); Kiribati, Papua-New Guinea, Samoa, Tonga, and Vanuatu (in a blend with the RCF)
Concessional Facilities for PRGT-eligible members (Kiribati, Papua-New Guinea, Solomon Islands, Tonga, and Vanuatu)			
Extended Credit Facility	BOP "problem" and an upper-credit-tranche (UCT) policy standard. Successive back-to-back arrangements are acceptable. Not available on a precautionary basis.	Yes	Kiribati, Papua-New Guinea, Samoa, Tonga, Vanuatu (possibly in a blend with the EFF); Solomon Islands (on a standalone basis)
Stand-By Credit Facility	To support countries with temporary adjustment need. Involves a BOP need (possibly potential) and an upper-credit-tranche (UCT) policy standard. Not expected to be used on a continuous basis.	No	Kiribati, Papua-New Guinea, Samoa, Tonga, Vanuatu (possibly in a blend with the SBA); Solomon Islands (on a standalone basis)
Rapid Credit Facility	Temporary assistance in response to: (i) exogenous shocks or (ii) BOP needs in countries that cannot implement strong enough policies for the the ECF or SCF. Lower amounts of financing.	No	Kiribati, Papua-New Guinea, Samoa, Tonga, and Vanuatu (possibly in a blend with EPCA or EA); Solomon Islands (on a standalone basis)
Policy Monitoring Framework			
Policy Support Instrument	This provides a nonfinancial monitoring arrangement similar to the ECF but without financing. This is a signaling instrument for countries with strong policies. If a financing need arises, it can be supplemented by a RCF or SCF.	Yes	Kiribati, Papua-New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu

1/ This is a simplified presentation of facilities that omits many details and qualifications; debt reduction through HIPC, MDRI, and PCDR is not included as none of the PICs are currently eligible. FCL and PLL are also not included.

Pacific Island Countries: IMF Facilities 1/

Facility or Instrument	Duration	Normal Access	MaximumAccess (% of quota)	Interest Rate	Grace Period	Final Maturity	PRSP Needed
Facilities for All Members Including for PRGT/GRA Blends							
Stand-By Arrangement (SBA)	To support countries with temporary adjustment need. Involves a BOP need (possibly potential) and an upper-credit-tranche (UCT) policy standard.	up to 200% per year	"Exceptional" access on a case-by-case basis	Tied to SDR rate (currently 1.32%)	3.25 years	5 years	No
Extended Fund Facility (EFF)	3 years	up to 200% per year	"Exceptional" access on a case-by-case basis	Tied to SDR rate (currently 1.32%)	4.5 years	10 years	No
Rapid Financing Instrument (RFI)	Standalone disbursement	up to 25%	50% annual, 100% cumulatively	Tied to SDR rate (currently 1.32%)	3.25 years	5 years	No
Concessional Facilities for PRGT-eligible members (Kiribati, Papua-New Guinea, Solomon Islands, Tonga, and Vanuatu) 2/							
Extended Credit Facility (ECF)	3 years (extension up to 5 years)	120% total	100% per year; 300% total	0%	5.5 years	10 years	Yes
Stand-By Credit Facility (SCF)	12-24 months	80% per year	100% per year; 300% total	0.25%	4 years	8 years	No
Rapid Credit Facility (RCF)	Standalone disbursement	25%; 50% exog. shock	75% cumulatively (100% exogenous shocks)	0%	5.5 years	10 years	No
Policy Monitoring Framework							
Policy Support Instrument (PSI)	3 years (extension up to 4 years)	n.a.	n.a.	n.a.	n.a.	n.a.	Yes

1/ This is a simplified presentation of facilities that omits many details and qualifications; debt reduction through HIPC, MDRI, and PCDR is not included as none of the PICs are currently eligible. FCL and PLL also omitted.
2/ Interest rates on concessional facilities ranges between 0 - 0.5 percent for the ECF and RCF and between 0.25 and 0.75 percent for the SCF depending on the average of the SDR interest rate in the preceding 12 months.