INTERNATIONAL MONETARY FUND

Eligibility to Use the Fund's Facilities for Concessional Financing

Prepared by the Strategy, Policy, and Review, the Legal, and the Finance Departments[1]

(In consultation with Area Departments)

Approved by Siddharth Tiwari, Sean Hagan, and Andrew Tweedie

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EXECUTIVE SUMMARY

This paper proposes to maintain the Poverty Reduction and Growth Trust (PRGT)-eligibility criteria established in early 2010 and considers, based on the application of such criteria, whether updates to the eligibility list are warranted at this time. The Executive Board expressed an expectation that the eligibility and graduation criteria and the list would be reviewed every two years. The premise remains that access to the Fund's scarce concessional resources should be preserved for members with low income and related vulnerabilities, while keeping PRGT eligibility closely aligned with (International Development Association (IDA) practices.

Based on the application of the PRGT-eligibility framework, no countries are proposed for entry or graduation at this time.

Eight countries meet the income or the market access criterion for graduation from PRGT eligibility, but none is proposed for graduation at this time given their serious short-term vulnerabilities, which are exacerbated by the current elevated risks in the global economy:

- ***Armenia*** and ***Georgia*** meet the graduation income criterion, but the two countries are not proposed for graduation given that they face serious short-term vulnerabilities (including large external imbalances in both and high debt in Armenia).

- The graduation income criterion for small countries is met by ***Dominica***, ***Grenada***, ***Maldives,*** and ***St. Vincent and the Grenadines***, but staff proposes maintaining these countries' PRGT eligibility, based on their continued serious short-term vulnerabilities, including high risk of debt distress and regional financial sector risks.

- ***Vietnam*** and ***Ghana*** meet the market access criterion for the first time, but staff proposes maintaining their PRGT eligibility on the basis of their serious short-term vulnerabilities. Vietnam has not been able to establish and sustain macroeconomic stability. Ghana's prospects depend critically on preserving the recent stability gains.

While no change to the PRGT-eligibility criteria is proposed, the paper proposes to increase the population threshold used to define small states under the framework to align with the definition adopted by the World Bank. The proposal would raise the population threshold from 1 to 1.5 million, which is consistent with the principle of aligning closely with World Bank practices. While this change would not result in any additional countries becoming PRGT- eligible now, it could do so in the future, and it would allow the Fund to expand PRGT eligibility to vulnerable small countries.

For the next review in early 2014, staff intends to conduct a more comprehensive review of the PRGT-eligibility framework, including the entry and graduation criteria and the PRGT-eligibility list, in close and early consultation with Executive Directors.

I. INTRODUCTION

1. **This paper reviews the PRGT-eligibility entry and graduation criteria established in January 2010 and examines, based on the application of such criteria, whether changes to the PRGT-eligibility list are warranted at this time.** [2] In January 2010, at the time of the approval and the first application of the PRGT-eligibility framework, Albania, Angola, and Azerbaijan graduated on the basis of the income criterion, while India, Sri Lanka, and Pakistan graduated on the basis of the market access criterion. The Executive Board expressed an expectation that the PRGT-eligibility entry and graduation criteria and the eligibility list would be reviewed and updated every two years.[3]

2. **The remainder of this paper is organized as follows:** The current eligibility framework is described in Section II. Section III reviews the framework and proposes an amendment to the definition of "small states." Section IV discusses the application of the entry and graduation criteria and concludes that no changes to the PRGT-eligibility list are warranted at this time. Section V contains the proposed decision. Annex I presents the relevant economic conditions for each country considered for graduation from the PRGT-eligibility list, while Annex II discusses market access for low-income countries (LICs).

II. THE 2010 PRGT-ELIGIBILITY FRAMEWORK

3. **The criteria established in 2010 aim to link PRGT eligibility closely to the Trust's key objectives.** That is, access to scarce resources for concessional Fund financing should be preserved for members with a low-income level and economic and financial vulnerabilities. For these countries, the concessionality of Fund financing is considered to be important for providing effective balance of payments support, while limiting risks of debt distress.

4. **The framework comprises differentiated criteria for entry and for graduation**. In broad terms, countries enter the list if their annual GNI per capita income is below the IDA operational cutoff (currently at US$1,175 for FY2012) and they do not have capacity to access international financial markets on a durable and substantial basis. Countries graduate from PRGT eligibility if they have either a persistently high level of income (exceeding a higher income threshold than that used for entry) or capacity to access international financial markets on a durable and substantial basis, and they do not face serious short-term vulnerabilities. These criteria are presented in more detail in Box 1. The framework also comprises special criteria for entry and graduation of small states as presented in Box 2.

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[2] See "Eligibility to Use the Fund's Facilities for Concessional Financing" and Decision No.14521-(10/3), adopted on January 11, 2010 (Decision on PRGT-Eligibility Criteria).

[3] Decisions on entry onto the PRGT-eligibility list can also be adopted in the interim period between reviews, and re-entry in the interim period would be possible for any country that had been removed from the list in the context of overdue obligations to the PRGT, as long as the country at the time of re-entry does not meet the graduation criteria. Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by an Executive Board decision in connection with its overdue obligations to the PRGT. It does not meet the graduation criteria for PRGT eligibility and, accordingly, would be expected to become PRGT-eligible if the remedial measure were lifted.

Box 1. Criteria for Entry and Graduation from PRGT Eligibility 1/

Entry: A Fund member would be added to the list of PRGT-eligible countries if: (i) its annual per capita income is below the operational IDA cutoff (as defined); and (ii) the sovereign does not have capacity to access international financial markets on a durable and substantial basis (as defined).

Graduation:

Income Criterion: The country's annual per capita GNI: (a) has been above the IDA operational cutoff for at least the last five years (for which qualifying data are available); (b) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (c) is currently at least twice the operational IDA cutoff.

Or:

Market Access Criterion: The sovereign has the capacity to access international financial markets on a durable and substantial basis, as measured by one of the following two alternative tests.

- The existence of such capacity would normally be evidenced by public sector issuance or guaranteeing of external bonds or by disbursements under public and publicly guaranteed external commercial loans in international markets during at least three of the last five years (for which data are available), in a cumulative amount over that period equivalent to at least 100 percent of the country's quota at the Fund at the time of the assessment. External bonds and commercial loans issued or contracted in markets that are not integrated with broader international markets do not qualify.
- As an alternative, a country could also be deemed to meet the market access criterion if there were convincing evidence that the sovereign *could* have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, considering such relevant factors as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating.

Both tests of the market access criterion would take into account bonds/loans issued, contracted, or guaranteed by *non-sovereign* public sector debtors, where such a debtor's ability to access international markets is assessed to be an indicator of the sovereign's creditworthiness. As a further safeguard, countries would be considered candidates for graduation under the market access criterion only if: (a) their annual per capita GNI is above 80 percent of the IDA operational cutoff (based on the latest available qualifying data); and (b) their annual per capita GNI has not been on a declining trend during the last five years for which data is available (comparing the first and last relevant annual data).

And:

Absence of serious short-term vulnerabilities: In addition to meeting at least one of the above two criteria, the country should not face serious short-term vulnerabilities. The assessment of these vulnerabilities will require, in particular, the absence of risks of a sharp decline in income, or of a loss of market access, and limited debt vulnerabilities, as indicated by the latest DSA, and a confirmation that overall debt vulnerabilities remain limited since such analysis. Thus, for example, a country that meets the income criterion would not be expected to graduate if there is a serious risk that its income might decline to less than twice the operational IDA cutoff. Similarly, a country that meets the market access criterion would not be expected to graduate if there is reason to believe that market access might be lost. In this context, large spreads on recent external borrowing could provide an indication of risks to prospective market access. Furthermore, debt vulnerabilities, as indicated by the most recent Debt Sustainability Analysis (DSA), should be limited. For members with a LIC-DSA, the risk of external debt distress should be moderate or less, and the level of domestic debt should not give rise to serious concerns regarding debt sustainability. Finally, developments and prospects since the most recent DSA was prepared should be taken into account and should confirm that overall debt vulnerabilities remain limited.

1/ From "Eligibility to Use the Fund's Facilities for Concessional Financing" and the Decision on PRGT-Eligibility Criteria.

Box 2. Entry and Graduation Criteria for Small States 1/

Special criteria apply for entry and graduation for small countries, defined as those with a population below one million.

- **Entry:** Small countries that are not currently PRGT-eligible would be considered for entry to the PRGT-eligibility list if: (i) the sovereign does not have capacity to access international financial markets on a durable and substantial basis (as defined in the Decision on PRGT-Eligibility Criteria); and (ii) per capita GNI is less than *twice* the IDA operational threshold.
- **Graduation:** Small countries would graduate on the basis of three criteria:
  - *income criterion*: Their annual per capita GNI: (i) has been above the IDA operational threshold for at least the last five years (for which qualifying data are available); (ii) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (iii) is currently at least *three* times the IDA threshold; or
  - *market access criterion:* The sovereign has the capacity to access international financial markets on a durable and substantial basis, as defined in the Decision on PRGT-Eligibility Criteria; and
  - *absence of serious short-term vulnerabilities:* Small countries that meet either of the above two criteria would graduate if they do not face serious short-term vulnerabilities. A small country would generally not be expected to graduate if it faces serious vulnerabilities (as discussed in Box 1 above).

1/ From "Eligibility to Use the Fund's Facilities for Concessional Financing" and the Decision on PRGT-Eligibility Criteria.

III. Review of the PRGT-Eligibility Framework

5. **It is proposed to maintain the PRGT-eligibility entry and graduation criteria that were established in 2010**. The eligibility framework is transparent and remains closely aligned with IDA practices. Moreover, the differentiation between the entry criteria and the more demanding graduation criteria serves to minimize the risk of untimely graduation and thereby avoid undue risks to the member's financial sustainability.

6. **It is also proposed to maintain the special criteria for entry and graduation of small states**. The less stringent entry and graduation criteria for small states remain appropriate in light of their greater vulnerabilities. There are 35 Fund members that, given their population, fall under the current definition of small states, 19 of which are not currently PRGT-eligible. These 19 members have a per capita income that is on average 15 times the IDA threshold.[4] Only two members—Marshall Islands and Micronesia—have per capita GNI that is relatively close to the entry criteria for small states (per capita GNI of twice the IDA threshold).[5]

[4] The per capita GNI of those 19 small states in 2010 ranged from US$2,700 (Micronesia) to US$79,510 (Luxemburg), and averaged US$18,056.

[5] Their per capita GNI was US$2,990 and US$2,700, respectively—2.5 and 2.3 times the IDA threshold, respectively.

7. **It is proposed to increase, with immediate effect, the population threshold used to define small states under the framework.**[6] In the 2010 PRGT-eligibility review, small states were defined as having a population below one million—a threshold that is commonly used in the literature on small states. During that review, a number of Executive Directors expressed concern that this definition is inconsistent with the World Bank's, which uses a threshold of 1.5 million people. At that time, the threshold was kept at 1 million based on analytical grounds supported by the empirical literature. However, it is now proposed to raise this threshold to 1.5 million, to align it with the World Bank's definition of a small state, and to extend PRGT eligibility to countries that share the key vulnerabilities of small states (limited diversification, openness, insularity, and susceptibility to natural disasters).

8. **This change would not result in any additional countries becoming PRGT-eligible now, but it could do so in the future.** There are eight Fund members with populations that fall between 1 and 1.5 million, seven of which are not currently PRGT-eligible. Of these countries, six have a per capita income that is on average about 12 times the IDA threshold.[7] One member, Swaziland, which is not currently PRGT-eligible, has per capita GNI that is relatively close to the entry criteria for small states and may qualify for entry onto the PRGT-eligibility list in the near future, depending on the level of its income per capita.[8] The country also meets the other entry criteria of not having capacity to access international financial markets (as described in Box 2). The remaining country, which is already PRGT-eligible, Timor-Leste, would be redefined as a small state and can therefore be expected to remain PRGT-eligible for a longer period, as a higher graduation income per capita threshold (three times the IDA operational cutoff) would apply.

9. For the next review in early 2014, staff intends to conduct a more comprehensive review of the PRGT-eligibility framework, including the entry and graduation criteria and the PRGT-eligibility list, in close and early consultation with Executive Directors.

IV. Review of the PRGT-Eligibility List

10. **Based on the application of the criteria for entry onto the PRGT-eligibility list, no members are proposed to be added to the list at this time.**[9]

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[6] The redefinition of the population threshold for small states will also be applicable to eligibility under the Post-Catastrophe Debt Relief (PCDR) Trust.

[7] For these six countries, per capita income ranges from US$7,740 (Mauritius) to US$25,420 (Bahrain).

[8] Swaziland is not eligible for IDA resources. The country's per capita GNI was US$2,600 in 2010—2.2 times the IDA threshold.

[9] South Sudan is expected to become a Fund member in the near future. Given its GNI per capita (currently estimated at US$984, well below the current IDA threshold of US$1,175 per capita) and its lack of capacity to access international financial markets on a durable and substantial basis, staff expects to propose South Sudan's entry onto the PRGT-eligibility list following its membership in the Fund. This would be consistent with the

(continued)

11. **Eight countries meet the income or the market access criterion for graduation from PRGT eligibility, but none is proposed for graduation at this time given their serious short-term vulnerabilities, which are exacerbated by current elevated risks in the global economy.** Under more favorable global economic conditions, some of these countries would likely not have faced such vulnerabilities and hence would have been proposed for graduation. Staff expects that at the time of the next review of PRGT eligibility in 2014, a number will most likely graduate (provided they have overcome by that time their serious short-term vulnerabilities). The following discussion elaborates on specific vulnerabilities for members that meet either the income or the market access criterion.

12. Although ***Armenia*** and ***Georgia*** meet the graduation income criterion, these countries are not proposed for graduation at this stage given that they both face serious short-term vulnerabilities. Current per capita GNI in both countries is above twice the IDA threshold, with Armenia at US$3,090 and Georgia at US$2,700. Their income has been above the IDA threshold for the last five years and has been on an increasing trend. However, the 2008–09 global crisis has had a severe impact on Armenia and Georgia:

- Armenia witnessed a substantial fall in GDP, sharply higher debt ratios, and an elevated poverty incidence. Although the country's risk of debt distress is currently assessed as low, it faces serious short-term vulnerabilities arising from a large current account deficit, high dependence on remittances and a weak export base, high public debt, and high dollarization.

- In Georgia, the current account deficit ballooned as exports collapsed. Pressures on the capital account stemming from the loss of investor confidence generated a large decline in international reserves and a substantial balance of payments financing gap. Georgia still faces serious short-term vulnerabilities arising from a high current account deficit and its dependence on official and private sector borrowing, at a time of heightened tensions in global markets and tight global liquidity. Sudden stops could put at risk the investment-led growth and may jeopardize macroeconomic sustainability.[10]

13. The graduation income criterion for small countries is met by ***Dominica, Grenada, Maldives,*** and ***St. Vincent and the Grenadines*** (each country's per capita GNI was above the IDA operational cutoff for at least the last five years, their per capita GNI is currently three

PRGT-eligibility framework which explicitly provides that "decisions on entry onto the PRGT-eligibility list of members that meet the entry criteria […] may also be adopted in the interim period between reviews." (Decision No. 14521-(10/3), adopted January 11, 2010, paragraph 5(i)).

[10] See Annex I for more detail on both cases.

times IDA's operational cutoff, and it has not been on a declining trend).[11] The ***Maldives*** also meets the market access criterion, with cumulative market access over the relevant period (2005–09) higher than the market access criterion threshold of 100 percent of the country's current Fund quota. Nonetheless, staff proposes maintaining all these countries' PRGT eligibility based on their serious short-term vulnerabilities (especially on debt). Grenada and Maldives are at high risk of debt distress. For Dominica and St. Vincent and the Grenadines, the most recent assessment of the risk of debt distress is moderate, but, together with Grenada, they face serious vulnerabilities due to their shared exposure to regional financial sector risks. For these Eastern Caribbean Currency Union (ECCU) members, resolution of financial sector issues, including in the insurance sector, could add significant pressures to the already high public debt burden (see Annex I for more detail).

14. Although ***Vietnam*** and ***Ghana*** meet the market access criterion, the two countries are not proposed for graduation at this stage given their serious short-term vulnerabilities. For both these countries, cumulative market access over the relevant period (2005–09) was higher than the market access criterion threshold of 100 percent of their current Fund quota, and both have successfully issued Eurobonds—Ghana in 2007 and Vietnam in 2005, 2009, and 2010.[12] Moreover, in contrast to two years ago, both countries now meet the minimum income condition for graduation under the market access criterion, as their income is above 80 percent of the IDA threshold (with Ghana actually above the threshold by 5.5 percent, and Vietnam at 94 percent of the threshold), and it has not been on a declining trend over the last five years. However, in both countries, short-term vulnerabilities are serious and may put at risk their ability to maintain market access or may add pressures on the countries' debt sustainability. Vietnam's risk of debt distress is low, but it has seen large swings in macroeconomic conditions in recent years, and it has not been able to establish and sustain stability. Ghana's risk of debt distress is moderate, but it depends critically on preserving the recent stability gains. It is also noteworthy that rating agencies downgraded both countries in 2010, citing heightened risks and an inconsistent policy response (see Annex I for more detail).

15. **No LICs are proposed for graduation on the basis of *potential* market access in this review.** At present, there are no LICs that are rated investment grade by the rating agencies. That said, recent successful Eurobond issuance by an increasing number of LICs provides evidence that potential market access for LICs as a group is clearly increasing. Côte d'Ivoire, Nigeria, and Senegal issued Eurobonds in 2010 and 2011. Market access for LICs is discussed further in Annex II.

[11] St. Lucia does not qualify for graduation on the basis of the income criterion since its per capita income is on a declining trend, as defined in the decision on the PRGT-eligibility criteria; its per capita income in 2010 was lower than that in 2006.

[12] The bulk of Vietnam and Ghana's public and publicly guaranteed borrowing in international markets over 2005–2009 was contracted or guaranteed by the central government.

Table 1. PRGT-Eligible Countries: 2010 Per Capita GNI and Population

Country	GNI per capita (In U.S. dollars)	Population (In millions)	Country	GNI per capita (In U.S. dollars)	Population (In millions)
Afghanistan	330 1/	30.2	Madagascar	440	21.3
Armenia**	3,090	3.3	Malawi	330	15.7
Bangladesh	640	164.5	Maldives**	4,270	0.3
Benin	750	9.6	Mali	600	13.4
Bhutan	1,920	0.7	Mauritania	1,060	3.2
Bolivia	1,790	10.4	Moldova	1,810	3.6
Burkina Faso	550	14.7	Mongolia	1,890	2.8
Burundi	160	8.3	Mozambique	440	21.6
Cambodia	760	14.3	Myanmar	n.a.	n.a.
Cameroon	1,160	20.4	Nepal	490	28.2
Cape Verde*	3,160	0.5	Nicaragua	1,080	5.8
Central African Republic	460	4.6	Niger	360	14.6
Chad	600	10.2	Nigeria	1,180	156.1
Comoros	820	0.7	Papua New Guinea	1,300	6.5
Congo, Rep.	2,310	3.9	Rwanda	540	10.0
Congo, Dem. Rep.	180	70.5	Samoa*	2,930	0.2
Côte d'Ivoire	1,070	22.0	São Tomé and Principe	1,200	0.2
Djibouti	1,280 2/	0.8	Senegal	1,050	13.1
Dominica**	4,960	0.1	Sierra Leone	340	5.8
Eritrea	340	5.3	Solomon Islands	1,030	0.5
Ethiopia	380	84.8	Somalia	n.a.	9.1
Gambia, The	440	1.7	St.Lucia***	4,970	0.2
Georgia**	2,700	4.4	St.Vincent and the Grenadines**	4,850	0.1
Ghana**	1,240	23.7	Sudan	1,270	40.1
Grenada**	5,560	0.1	Tajikistan	780	7.6
Guinea	380	10.3	Tanzania	530	41.3
Guinea-Bissau	540	1.6	Timor-Leste	2,220	1.1
Guyana*	3,270	0.8	Togo	440	7.0
Haiti	650	9.9	Tonga*	3,380	0.1
Honduras	1,880	7.6	Uganda	490	34.0
Kenya	780	39.7	Uzbekistan	1,280	28.2
Kiribati	2,010	0.1	Vanuatu*	2,760	0.2
Kyrgyz Republic	880	5.3	Vietnam**	1,100 2/	88.3
Lao PDR	1,010	6.4	Yemen, Rep.	1,060	24.4
Lesotho	1,080	2.5	Zambia	1,070	13.3
Liberia	190	4.3			
Memorandum Items:					
South Sudan 3/	984	n.a.			
Zimbabwe 4/	460	12.6			

Source: The World Bank, World Development Indicators, July 2011.
* Maintained on the list since it satisfies the small country exception.
** Maintained on the list due to short-term vulnerabilities.
*** Maintained on the list since income per capita in 2010 is lower than that in 2006, and therefore does not qualify for graduation on the basis of the income criterion.
1/ Data for 2010 are not available. Latest available data presented here is for 2008.
2/ Data for 2010 are not available. Latest available data presented here is for 2009.
3/ South Sudan is not yet a member of the Fund. Once it becomes a member, it will be PRGT-eligible.
4/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by a Board decision in connection with its overdue obligations to the PRGT. It does not meet the graduation criteria for PRGT eligibility and, accordingly, would be expected to become PRGT-eligible if the remedial measure were lifted.

V. PROPOSED DECISION

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

1. Pursuant to paragraph 5 of Decision No. 14521-(10/3), adopted January 11, 2010, the Fund has reviewed the criteria for entry onto and graduation from, the list annexed to decision No. 8240-(86/56) SAF, as amended.

2. Subparagraph D of paragraph 1 of Decision No. 14521-(10/3), adopted January 11, 2010 shall be amended to read as follows:

"(D) For the purposes of the criteria set forth in this paragraph 1, a member will be considered a "small country" if it has a population below 1.5 million."

Annex I. Assessments of Countries that Meet the Income or Market Access Criteria

Georgia

In 2010, Georgia's GNI per capita reached US$2,700, which is above twice the operational IDA cutoff. Income has been above the IDA threshold and on an increasing trend for the past five years.

The 2008–09 global crisis hit Georgia's economy hard. The current account deficit ballooned to 23 percent of GDP in 2008 (the largest in the region) as exports collapsed. Pressures on the capital account stemming from the loss of investor confidence generated a large decline in international reserves and a substantial balance of payments financing gap. A large package of international financial support helped close that gap, while allowing the government to put in place a strong countercyclical fiscal policy response. This response, combined with monetary and prudential policy easing and exchange rate flexibility, contributed to limit output contraction to 3.8 percent in 2009.

The economy is recovering at a solid pace, with real GDP growth exceeding 6 percent in 2010 and projected at 5¾ percent in 2011. The fiscal position is expected to improve further with the deficit projected to fall from 6.6 percent of GDP in 2010 to less than 4 percent in 2011. Inflation declined to 1.9 percent in November 2011 from a peak of 14.3 percent in May, owing to a large drop in food price inflation. Net international reserves regained their pre-crisis level, with import coverage of gross reserves projected to remain above four months in 2011.

At the same time, however, the current account deficit remains relatively high, at 10–12 percent of GDP since 2009. As foreign direct investment dropped from a high of 17 percent of GDP in 2007 to a projected 6 percent of GDP in 2011, the financing of the deficit depends on official and private sector borrowing. This, in turn, exposes Georgia to substantial risks, including the impact of sudden stops on the investment-led growth, and may jeopardize macroeconomic sustainability, especially in the current global environment of tight liquidity and recent tensions in global markets. In view of these risks, a successor SCF arrangement (to be blended with an SBA arrangement) is under discussion to provide precautionary access to Fund resources and to support the completion of the post-crisis adjustment process.

The banking sector is back on a relatively solid footing after the global crisis. While banks were severely affected by the crisis, their financial situation has recently strengthened, with lower NPLs reflecting write-offs and adequate provisioning.

Staff proposes maintaining Georgia's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Armenia

Armenia's per capita GNI has been consistently above the IDA threshold since 2004, reaching US$3,090 in 2010. The country's income has been on an increasing trend over the past decade.

The impact of the 2008–09 global crisis was severe. The sharp contraction in exports, remittances, and FDI led to a crisis of confidence and an enormous drop in output (a 14 percent decline in GDP in 2009). A strong countercyclical policy response under both the 2009 SBA and the 2010 EFF/ECF-supported programs helped to soften the impact of the crisis and recover confidence, albeit at the cost of a substantial rise in public debt (from 16 percent of GDP in 2008 to 40 percent in 2010). Program performance has been strong and economic activity is recovering, with growth at 2 percent in 2010, but the pace of recovery remains slow.

Booming mining exports and recovering remittances helped narrow the current account deficit in 2010, but it remains high at 14 percent of GDP. The current account deficit needs to decline substantially as crisis support unwinds and given limited potential for private borrowing. Although Armenia's foreign exchange reserves are comfortable at 4.8 months of imports, a combined negative shock to remittances and exports could reduce reserves to two months of imports.

The financial system has been resilient to shocks due to high capitalization and liquidity. However, high dollarization and foreign currency lending add to vulnerabilities. The authorities are committed to reducing banking sector risks and strengthening crisis preparedness and banking system resilience. Armenia's financial system is not integrated with global markets. Over the past five years, there has not been any public or publicly guaranteed issuance of debt in international markets.

The most recent LIC-DSA for Armenia indicated that the risk of debt distress remains low. However, the country faces several challenges arising from a sizable current account deficit, high dependence on remittances and a weak export base, high public debt, and high dollarization.

Staff proposes maintaining Armenia's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Eastern Caribbean Currency Union Member Countries

Three Eastern Caribbean Currency Union (ECCU) member countries—Dominica, Grenada, and St. Vincent and the Grenadines—that are PRGT-eligible are not proposed for graduation on the basis of their country-specific short-term vulnerabilities.[13] These countries also share exposure to system-wide risks (see below). Resolution of region-wide financial sector issues,

[13] St. Lucia does not meet the income criterion for graduation since its per capita income is on a declining trend over the last five years, with its per capita income in 2010 lower than that in 2006.

including in the insurance sector, could add significant pressures to the already high country-specific public debt burden. The fallout from the global crisis also continues to place strains on the financial sectors of these economies.

Dominica

In 2010, per capita GNI reached US$4,960—more than four times the IDA threshold. Income per capita has been on an increasing trend over the past five years.

Dominica made substantial progress in reaching a stable and sustainable macroeconomic position under the last ECF arrangement that ended in 2006. Prudent fiscal management in the years leading up to the global crisis provided Dominica with the space to implement supportive fiscal policies during the crisis. Dominica also accessed the Fund's Exogenous Shock Facility (ESF) in July 2009 to mitigate the impact of the global crisis on FDI and tourism flows.

While Dominica withstood the global crisis relatively well, recovery in economic activity has been moderate, with barely positive real GDP growth in 2010. In the near term, real GDP growth is expected to remain below potential, increasing only slightly to 0.9 percent in 2011, due to the absence of strong growth drivers. The fiscal position weakened over the past two years reflecting the impact of the fiscal stimulus, and public debt increased to 67 percent of GDP in 2010 from 64 percent in 2009, halting the declining trend witnessed during 2001–2008.

Dominica's financial system remains vulnerable following the collapse of the regional insurance company CL Financial Group, which exposed the financial system and the government to relatively large potential contingent losses that could add significant pressures to the already high country-specific public debt burden.

The most recent DSA shows that the risk of external debt distress remains moderate. This notwithstanding, the debt outlook deteriorated after the global crisis and debt dynamics will remain precarious. A number of risks, including from external and natural disaster shocks, continued pressures on current and capital spending, and contingent costs from the failure of the regional insurance companies could, if they materialize, set the debt on an upward path and derail debt reduction efforts. Overall, Dominica's short-term vulnerabilities are significant, especially those related to debt.

Staff proposes maintaining Dominica's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Grenada

Grenada's per capita GNI reached US$5,560 in 2010—almost five times the IDA threshold, and it has been on an increasing trend over the least the past five years (as defined by comparing the first and the last relevant annual data).

Grenada was severely impacted by the global financial crisis. The economy contracted for the second year in a row in 2010, reflecting declines in tourism and FDI. A new three-year Extended Credit Facility (ECF) arrangement was approved in April 2010. Program performance thus far has been mixed, and the economic situation remains challenging. While modest real GDP growth of 1 percent is expected in 2011, headline inflation is projected to remain elevated due to higher international food and fuel prices.

Grenada's financial system remains vulnerable following the collapse of the regional insurance company CL Financial Group, which exposed the financial system and the government to relatively large potential contingent losses that could add significant pressures to the already high country-specific public debt burden.

The most recent DSA shows that Grenada's risk of external debt distress remains high. The debt outlook is sensitive to any delay in recovery, a new downturn, or fiscal slippages that affect fiscal consolidation over the medium term. Risks to the debt outlook also include potential fiscal costs related to the regional financial sector difficulties. Public and publicly guaranteed debt stood at 97 percent of GDP in 2010, and is projected to remain above 90 percent in the near term. Grenada's short-term vulnerabilities clearly remain significant, especially given very high public debt.

Staff proposes maintaining Grenada's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

St. Vincent and the Grenadines

Per capita GNI reached US$4,850 in 2010, which is more than four times the IDA threshold. Income has been above the IDA threshold over the past decade and has been on an increasing trend.

The global financial crisis impacted St. Vincent and the Grenadines severely, reducing real GDP, deteriorating public finances, and bringing to the fore problems in the financial sector in 2009. The economy was expected to start picking up in the second half of 2010. However, hurricane Tomas hit the island in October 2010 and torrential rains followed in 2011, accompanied with flooding and landslides. These two consecutive natural disasters resulted in two subsequent requests for Fund financing under the Rapid Credit Facility (RCF).

The recent natural disasters have further exacerbated the challenges that St. Vincent and the Grenadines faces. Real GDP registered negative growth of 1.8 percent in 2010 and is projected to decline further by 0.4 percent in 2011, which would be the fourth consecutive year of negative growth. Inflation is also on the rise, reflecting increases in international commodity prices. While the recent disasters are not expected to have a significant impact on the banking sector, slower economic recovery may have some indirect impact with a potential risk of rising non-performing loans (NPLs). At the same time, however, the financial system remains vulnerable following the collapse of the regional insurance company CL Financial Group, which exposed the financial system and the government to relatively large potential contingent losses that could add significant pressures to the already high country-specific public debt burden.

The most recent DSA shows that St. Vincent and the Grenadines' risk of external debt distress is moderate. However, short-term vulnerabilities are significant. Considerable short-term risks are associated with high gross public debt, which reached 67 percent in 2010. The outlook for debt sustainability critically depends on fiscal consolidation, a rebound in economic growth, and a resolution of regional financial sector issues.

Staff proposes maintaining St. Vincent and the Grenadines' PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Maldives

The Maldives' per capita GNI reached US$4,270 in 2010—almost four times the IDA threshold and it has been on an increasing trend over the past five years. The Maldives' market access, measured by public and publicly-guaranteed external bonds and commercial loans inflows, amounted to 744 percent of quota cumulatively over 2005–2009.

Since the 2004 tsunami, the effects of an unsustainable increase in public spending were exacerbated by the global crisis. These developments pushed the economy into recession, with severe fiscal and external imbalances, falling reserves, and dollar shortages. A Fund-supported program (SBA/ESF blend) was approved in December 2009, centering on strong fiscal adjustment to put public finances back on a sustainable path. Despite some decisive initial policy actions, significant fiscal slippages undermined the restoration of sustainability. Available data point to a fiscal deficit of 21 percent of GDP in 2010. Unsustainable fiscal measures are expected to result in a deficit of 22 percent and 19 percent in 2011 and 2012, respectively. Public debt is estimated at about 88 percent of GDP in 2010 and is expected to increase significantly to reach 102 percent by 2012.

After contracting by 2¼ percent in 2009, the economy rebounded strongly in 2010 (with 4.75 percent real growth) driven by tourism. Inflation has continued to move in line with global price developments and domestic supply shocks, but a tight monetary policy stance has helped contain pressures (with the inflation rate at 5 percent in 2010). The economic recovery and higher commodity prices have pushed up imports, offsetting the tourism rebound and resulting in a current account deficit of about 32 percent of GDP in 2010—which is sustained by foreign capital inflows.

The banking system as a whole remains sound, but vulnerabilities remain. Banks are well capitalized and liquidity is high, but asset quality and profitability continued to decline due to exposure to large tourism-related borrowers affected by the global crisis. Banks have also become heavily exposed to the government and a key systemic vulnerability is the fragile financial position of the state-owned Bank of Maldives, the country's largest bank.

As a result of unsustainable fiscal policies, the risk of debt distress was increased in the most recent DSA from moderate to high. The magnitude and term-structure of public debt, combined with the large fiscal deficit, pose significant financing risks—the government's gross financing needs in 2011 are estimated at 45½ percent of GDP.

The Maldives' short-term vulnerabilities clearly remain very significant and neither the country's high income nor its market access is adequate to qualify it for graduation from PRGT eligibility.

Staff proposes maintaining the Maldives' PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Vietnam

Vietnam's market access, measured by public and publicly-guaranteed external bonds and commercial loans inflows, amounted to 152 percent of quota cumulatively over 2005–2009. The country also raised US$1 billion in a global bond issue in 2010.[14] However, rating agencies downgraded Vietnam in 2010, citing heightened risks and an inconsistent policy response, as well as large contingent liabilities arising from the banking sector. In 2011, spreads on Vietnam's sovereign bonds widened sharply and by more than in peer countries in emerging Asia.

In 2010, Vietnam's per capita GNI reached US$1,100, which is above the minimum 80 percent IDA threshold that applies to the market access criterion. Income has been on an increasing trend over the past five years.

Vietnam weathered the global crisis well, though the country has seen large swings in macroeconomic conditions mainly due to reversals in policy decisions. Real GDP growth in 2010 is estimated at 6¾ percent. However, the unwinding of the 2009 stimulus was incomplete, and risks stemming from expansionary policies materialized. Strong domestic demand, combined with rising international commodity prices provided ground for inflationary pressures (inflation was 23 percent in August 2011) and weakened confidence in the currency. While the current account deficit narrowed in 2010 and direct investment inflows remained robust, large unrecorded outflows equivalent to 13 percent of GDP led to pressures on the

[14] The bulk of Vietnam's public and publicly guaranteed borrowing in international markets over 2005–2009 was contracted or guaranteed by the central government.

exchange rate and a decline in international reserves to 1.4 months of imports. The currency was devalued on four occasions between November 2009 and February 2011.

Financial market confidence was eroded by macroeconomic developments and the uncertain policy environment. The system is laden with a potential for substantial nonperforming loans under a weak regulatory and supervisory regime. Rapid credit growth and connected lending also point to increasing risks in the financial sector.

The most recent LIC-DSA indicated that the risk of external debt distress remains low. However, the outlook for public sector debt is less favorable and may add pressures on debt sustainability, calling for continued fiscal consolidation. In addition, potential contingent liabilities arising from the financial sector and state-owned enterprises (SOE) pose further risks to debt sustainability. Restoring macroeconomic stability and policy credibility depends critically on the decisive implementation of stabilization measures.

Vietnam's market access is not sufficient to qualify the country for graduation from PRGT eligibility given the country's serious short-term vulnerabilities, as well as signs of weakening prospects for future access of international financial markets.

Staff proposes maintaining Vietnam's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

Ghana

Ghana's market access, measured by public and publicly-guaranteed external bonds and commercial loans inflows, amounted to 212 percent of quota cumulatively over 2005–2009, including the country's first issuance of a sovereign Eurobond of US$750 million in 2007.[15] However, rating agencies downgraded Ghana in 2010, citing large fiscal deficits and lack of clarity in management of oil revenues. Since then, a sound Petroleum Revenue Management Bill was adopted and the fiscal deficit was reduced significantly in 2011.

Ghana's per capita GNI reached US$1,240 in 2010, which is well above 80 percent of the IDA threshold (actually 5.5 percent higher than the threshold). The country's income has been on a consistent rise since 2003.

Ghana's adjustment policies have been supported by an ECF arrangement since July 2009. Although some important gains were achieved so far under the ECF, implementation of the adjustment program under the ECF has been uneven: after significant slippages in 2010, performance improved considerably in 2011.

[15] The bulk of Ghana's public and publicly guaranteed borrowing in international markets over 2005–2009 was contracted or guaranteed by the central government.

Ghana's economy recovered from the global crisis with growth expanding to 6 percent in 2010, after a mild slowdown in 2009. Inflation was reduced from over 20 percent in 2009 to about 9 percent in 2010, helped by monetary tightening and a stable currency. With cocoa and gold exports benefiting from high global commodity prices, and strong capital inflows including FDI in the oil sector financing the current account, the external position remains relatively favorable. The start of oil production in 2010 is expected underpin double digit growth rates from 2011 onward, with single digit inflation, provided fiscal and monetary policies are supportive.

However, this strong performance masked significant fiscal policy slippages that resulted in rising expenditure arrears and higher public debt ratios in 2010. In 2010, public debt stood at 39 percent of GDP, excluding expenditure arrears of about 2 percent of GDP and central government liabilities for unpaid SOE debts of about 9 percent of GDP. Moreover, the share of domestic debt held by nonresidents more than doubled in 2010, reaching 19 percent, compared to 8 percent in 2009. More recently, however, the authorities took advantage of a favorable economic environment and boosted domestic tax revenues while repaying arrears, though controlling current spending proved more challenging. The main risks arise from an overrun in the wage bill and pressures to increase spending ahead of the 2012 elections. The 2011 FSAP found that financial stability risks had heightened given high NPLs, extensive state involvement in the sector, and weak risk management and accounting practices.

Ghana's external debt stock has risen substantially since its MDRI debt relief in 2005, largely reflecting borrowing from bilateral and multilateral institutions and the sovereign bond issue.[16] The most recent LIC-DSA indicated that Ghana's risk of external debt distress remains at a moderate level. External debt burden indicators are expected to remain below their respective indicative thresholds, provided the programmed fiscal consolidation is achieved. The main vulnerabilities relate to a high debt service-to-revenue ratio and continuing risks to the fiscal outlook. Indeed, while overall public sector debt is projected to remain broadly unchanged in relation to GDP, a ratio of 40 percent does not provide strong buffers against shocks.

Ghana's market access is not sufficient to qualify the country for graduation from PRGT eligibility given the country's significant short-term vulnerabilities, which may put at risk the country's abilities to maintain market access.

Staff proposes maintaining Ghana's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.

[16] At the same time, however, Ghana's debt indicators have improved, reflecting the upward revision to GDP and more modest commercial borrowing assumptions.

Annex II. Market Access by Low-Income Countries

This Appendix provides details on measurements of the market access criterion as shown in Tables 1 and the text table below. As noted in the paper, the capacity of a sovereign to access international financial markets would normally be evidenced by public sector issuance or guaranteeing of external bonds or by disbursements under public and publicly guaranteed external commercial loans in international markets. Public bonds and commercial loans refer to obligations of a public debtor, including the sovereign (national government) and other public borrowers (such as political subdivisions, agencies of the national government or of political subdivisions, autonomous public bodies, as well as public corporations) whose ability to borrow is assessed to be an indicator of the sovereign's creditworthiness (see SM/09/288, page 33).

Data on disbursements under public and publicly guaranteed external commercial loans in international markets is derived from the World Bank publication Global Development Finance (GDF), including public sector issuance of external bonds. The most recent available data are for 2009.[17] As defined in the GDF, data related to the public and publicly guaranteed (PPG) debt are reported on a loan-by-loan basis, providing annual information on the disbursed and outstanding balance and the undisbursed balance of each loan—comprising public debtors such as national governments or agencies, or autonomous public bodies, and private debt that is guaranteed for repayment by a public entity. Private debtors can include commercial banks or other financial institutions such as insurance companies, whether or not publicly owned. Detailed information on the terms and conditions of each loan is also reported. The GDF data thus reflect a broader definition of market access than just the Eurobonds presented in the text table below.

LICs: Eurobond Issuance 2005-2011
(In millions of U.S. dollars)

Country	Year	Size
Vietnam	2005	750
Ghana	2007	750
Georgia	2008	500
Senegal	2009	200
Vietnam	2009	100
Cote d'Ivoire	2010	2,332
Vietnam	2010	1,000
Georgia	2011	500
Nigeria	2011	500
Senegal	2011	500

Source: Bloomberg and Dealogic.

Data on public sector issuance of external bonds is also derived from Bloomberg and Dealogic (text table).

The market access criterion is based on the above data in cumulative amounts over a period of five years as a ratio to a country's current quota at the Fund. The criterion is met if cumulative market access in percent of quota exceeds 100 percent, with evidence of market access during at least three of the last five years for which data are available (Table 2). Countries' Fund quotas used in this PRGT-eligibility paper are the existing quotas in effect at the time of this assessment (see http://www.imf.org/external/np/sec/memdir/members.aspx). As of August 31, 2011, the quota distribution for LICs reflected recently increased quotas for three countries—Chad, Maldives, and Vietnam—on account of the 2008 quota and voice reform, which entered into force in March 2011. These countries already consented and paid in their increased quota. Four other LICs—Bhutan, Cape Verde, Eritrea, and Timor-Leste—will have higher quotas once they consent and pay in their increased quota.

[17] Data for 2010 are incomplete.

Table 2. PRGT-Eligible Countries: Public and Publicly-Guaranteed (PPG) Debt, and GNI Per Capita

	PPG external bonds and commercial loans (Disbursements in millions of U.S. dollars)					Cumulative 2005-2009 (In % of current Quota)	GNI per capita, Atlas Method
	2005	2006	2007	2008	2009		2010
Afghanistan, I.R. of	-	-	-	-	-	-	330
Armenia, Republic of	-	-	-	-	-	-	3090
Bangladesh	-	-	-	-	-	-	640
Benin	-	-	-	-	-	-	750
Bhutan **	-	-	-	-	-	-	1920
Bolivia	-	-	9.9	66.3	7.0	31.5	1790
Burkina Faso	-	-	-	-	-	-	550
Burundi	-	-	-	-	-	-	160
Cambodia	-	-	-	-	-	-	760
Cameroon	-	1.4	-	-	8.0	3.3	1160
Cape Verde **	0.9	0.1	-	-	-	7.0	3160
Central African Rep.	-	-	-	-	-	-	460
Chad *	-	-	-	-	-	-	600
Comoros	-	-	-	-	-	-	820
Congo, Dem. Rep. of	-	-	-	-	-	-	180
Congo, Rep.	-	-	-	-	-	-	2310
Cote d'Ivoire	-	-	-	-	-	-	1070
Djibouti	-	-	-	-	-	-	1280
Dominica	-	-	-	-	-	-	4960
Eritrea **	-	-	-	-	-	-	340
Ethiopia	-	-	-	-	-	-	380
Gambia, The	-	-	-	-	-	-	440
Georgia	-	-	-	500.0	-	216.0	2700
Ghana	47.2	28.9	796.2	55.9	276.7	212.0	1240
Grenada	-	-	-	-	-	-	5560
Guinea	2.5	2.5	6.0	4.0	3.8	11.4	380
Guinea-Bissau	-	-	-	-	-	-	540
Guyana	-	-	-	-	-	-	3270
Haiti	-	-	-	-	-	-	650
Honduras	4.5	-	0.1	-	50.0	27.4	1880
Kenya	28.4	1.3	-	-	-	7.1	780
Kiribati	-	-	-	-	-	-	2010
Kyrgyz Republic	-	-	-	-	-	-	880
Lao PDR	-	-	-	-	-	-	1010
Lesotho	-	0.0	-	-	-	0.1	1080
Memorandum Items:							
South Sudan 1/	-	-	-	-	-	-	984
Zimbabwe 2/	3.8	-	-	-	-	0.7	460

	PPG external bonds and commercial loans (Disbursements in millions of U.S. dollars)					Cumulative 2005-2009 (In % of current Quota)	GNI per capita, Atlas Method
	2005	2006	2007	2008	2009		2010
Liberia	-	-	-	-	-	-	190
Madagascar	-	-	-	0.1	0.0	0.1	440
Malawi	-	-	-	-	-	-	330
Maldives *	16.3	17.5	28.6	47.4	4.6	743.6	4270
Mali	3.2	1.5	-	-	2.5	5.0	600
Mauritania	15.5	-	-	0.0	-	15.6	1060
Moldova	-	-	-	-	-	-	1810
Mongolia	-	-	75.0	-	-	95.3	1890
Mozambique	-	-	-	-	-	-	440
Myanmar	-	-	-	-	-	-	n.a.
Nepal	-	-	-	-	-	-	490
Nicaragua	-	-	-	-	-	-	1080
Niger	-	-	-	-	-	-	360
Nigeria	-	-	-	-	-	-	1180
Papua New Guinea	-	-	-	-	-	-	1300
Rwanda	-	-	-	-	-	-	540
Samoa	-	-	-	-	-	-	2930
Sao Tome & Principe	-	-	-	-	-	-	1200
Senegal	-	4.1	-	-	200.0	81.9	1050
Sierra Leone	-	-	-	-	-	-	340
Solomon Islands	-	-	-	-	-	-	1030
Somalia	-	-	-	-	-	-	n.a.
St. Lucia	-	44.4	-	-	10.5	233.3	4970
St. Vincent and The Grenadines	30.0	-	-	16.0	-	359.9	4850
Sudan	-	-	-	-	-	-	1270
Tajikistan	-	-	-	-	-	-	780
Tanzania	19.1	13.2	3.1	-	-	11.5	530
Timor-Leste **	-	-	-	-	-	-	2220
Togo	-	-	-	-	-	-	440
Tonga	-	-	-	-	-	-	3380
Uganda	-	-	-	-	-	-	490
Uzbekistan	33.9	9.6	19.3	37.3	0.8	23.8	1280
Vanuatu	-	-	-	-	-	-	2760
Vietnam *	786.4	77.6	52.8	63.3	97.9	151.9	1100
Yemen	-	-	-	-	-	-	1060
Zambia	2.7	52.3	1.7	0.1	-	7.5	1070

Sources: World Bank Global Development Finance and IMF staff estimates.

* As of August 31, 2011, the quota distribution for low-income countries reflected recently increased quotas for three countries–Chad, Maldives, and Vietnam–on account of the 2008 quota and voice reform, which entered into force in March 2011. These countries already consented and paid in their increased quota.

** Based on the 2008 quota and voice reform, four additional low-income countries–Bhutan, Cape Verde, Eritrea, and Timor-Leste–will have higher quotas once they consent and pay in their increased quota.

1/ South Sudan is not yet a member of the Fund. Once it becomes a member, it will be PRGT-eligible.

2/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by a Board decision in connection with its overdue obligations to the PRGT. It does not meet the graduation criteria for PRGT eligibility and, accordingly, would be expected to become PRGT-eligible if the remedial measure were lifted.