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INTRODUCTION

This evaluation assesses how well IMF-supported programs have helped to sustain economic growth while delivering necessary adjustment for external viability over the period 2008–19. While the evaluation does not assess the experience during the COVID-19 pandemic, its lessons have become even more relevant as countries seeking IMF support now face particularly strong headwinds to growth.

According to the Articles of Agreement, one of the fundamental purposes of the IMF is to make its resources temporarily available to members to help solve balance of payments (BOP) problems without resorting to "measures destructive of national or international prosperity." This purpose is echoed in the Fund's 2002 Guidelines on Conditionality, which stipulate that IMF-supported programs should be primarily directed to solving the member's BOP problems and achieving medium-term external viability while "fostering sustainable economic growth." As indicated in a 2013 Board paper on Jobs and Growth, IMF-supported programs should therefore "help maintain and strengthen growth as much as possible," while ensuring that programs meet their primary external goals (IMF, 2013a).

Supporting growth has been recognized as important not just for its own sake but also as a key ingredient to achieving economic and financial stability. The close linkage between debt sustainability and growth is well known. Weak growth outcomes render targeted balance sheet repairs or correction of stock imbalances more difficult to achieve and may undercut political support for adjustment and reform. However, achieving an appropriate and realistic combination of adjustment and growth has always been a challenging task. The relationship between adjustment and growth is likely to be nonlinear and uncertain, particularly if the economy is under financial stress or operating outside normal macroeconomic conditions. It is also likely to differ depending on the horizon considered—that is, adjustment may depress growth in the short run but support growth in the medium and longer run.

In practice, the Fund's attention to growth in the context of financing arrangements has increased over time. The introduction of the Extended Fund Facility (EFF) back in the 1970s was intended to provide support for comprehensive programs over an extended period to correct payments imbalances because of structural impediments or slow growth. Greater emphasis on growth and poverty reduction for low-income countries (LICs) was reflected in the introduction of the Enhanced Structural Adjustment Facility (ESAF) in 1987 and the Poverty Reduction and Growth Trust (PRGT) in 2000. In the aftermath of the Global Financial Crisis (GFC), the Fund paid greater attention to growth in program design out of concern for the contractionary effects of adjustment on already weak economies. Greater emphasis on growth—both during the program period and afterwards—was also reflected in the 2014 update of the Operational Guidance Note on Conditionality and in revisions to the framework for debt sustainability assessment and the debt limits policy. These changes have fostered increasing attention to growth-friendly policies in program design such as protection of public investment and social spending, growth-enhancing structural reforms, and debt operations to alleviate the extent of fiscal adjustment needed to achieve debt sustainability.

Despite increased attention, growth outcomes have tended to fall short of growth projections included in the program's macroeconomic framework. The 2018 Review of Program Design and Conditionality (ROC) found that while IMF-supported programs were often quite successful in solving the member's BOP problems, program growth projections were generally too optimistic. Growth shortfalls implied less progress in reducing stock imbalances or ensuring debt sustainability than intended, while disappointed growth expectations could adversely affect domestic support for program implementation.

Seemingly lackluster growth outcomes under IMF-supported programs have often been criticized as indicative of an excessive austerity bias and continued lack of attention to growth consequences of IMF-supported programs.[1] In addition to raising questions about the benefits and costs of Fund support for the recipient countries, such concerns have resulted in a perceived stigma more broadly, potentially discouraging use of IMF financing and challenging the Fund's reputation.

Concerns about the growth impact of IMF-supported programs have fostered an extensive academic literature. Empirical findings vary substantially depending on the sample periods and countries covered as well as empirical approaches used. In broad terms, the literature is inconclusive about the growth impact of IMF-supported programs, reflecting in part significant empirical challenges involved in identifying appropriate counterfactuals and isolating the impact of programs on growth from influences of other factors. Some recent academic studies have found positive evidence on the growth benefit of IMF-supported programs, but this remains an area of continuing research.

This evaluation aims to contribute to the continuing discussion over whether the Fund pays sufficient attention to growth concerns in the context of IMF-supported programs by assessing experience with adjustment and growth in program design and outcomes over the period 2008–19 and seeks to draw lessons for the Fund's lending framework. The evaluation recognizes that growth outcomes during IMF-supported programs should be assessed taking due account of the difficult circumstances faced by program countries and the substantial adjustment often needed to restore external viability. Thus, stabilization programs typically involve restraints on aggregate demand to close the gap between income and absorption. As a result, growth would normally be expected to fall short of historical trend performance during the program itself, although the additional external financing provided by the Fund and other sources could alleviate this impact. Programs can also help to raise growth performance after the program once adjustment is complete and the benefits of reforms supported by the program start to grow. Thus, the evaluation assesses whether programs helped countries to achieve higher growth than otherwise, distinguishing between the short run (i.e., during the program) and the medium run (i.e., after the program).

The evaluation builds on the findings of the recently completed 2018 ROC and other relevant studies, including earlier IEO evaluations. The findings of the evaluation are based on extensive empirical work using a large data set of program design and macroeconomic outcomes, a range of detailed country case studies, and six thematic background papers exploring growth-supporting strategies considered in IMF-supported programs (Box 1). The case studies cover 17 countries that accessed IMF support under the GRA and the PRGT to examine country-specific aspects of program design and outcomes to complement the findings of cross-country analysis at the aggregate level. The evaluation sample for the empirical work consists of 131 IMF financing arrangements with conditionality (including arrangements treated as precautionary) approved and completed between September 2008 and March 2020.[2] Data used in the analysis are taken mostly from the World Economic Outlook (WEO) database and the Monitoring of Fund Arrangements (MONA) database of the IMF. The latest actual data on economic outcomes are taken from the 2020 January vintage of the WEO database, while program projections and real time data are taken from various

[1] See Przeworski and Vreeland (2000), Dreher (2006), Van Waeyenberge and others (2010), and Ghosh (2019).

[2] See Annex for the full list and the composition of programs included in the evaluation sample as well as the data conventions used to determine program duration.

BOX 1. BACKGROUND PAPERS

Thematic papers

- Cross-Country Analysis of Program Design and Growth Outcomes: 2008–19
- Initiating Growth Surges: The Role of IMF-Supported Programs
- Fiscal Adjustment and Growth in IMF-Supported Programs
- Structural Conditions, Structural Reforms and Growth in IMF-Supported Programs
- Exchange Rate Adjustment and Growth in IMF-Supported Programs
- Market Debt Operations and Growth in IMF-Supported Programs

Country case studies

- Africa: Benin, Cameroon, Ghana, Malawi, and Senegal
- Asia and Pacific: Bangladesh and Mongolia
- Europe: Latvia, Romania, and Ukraine
- Middle East and Central Asia: Egypt, Jordan, Pakistan, and Tunisia
- Western Hemisphere: Grenada, Honduras, and Jamaica

vintages depending on the specific window of time that the analysis is focusing on.

It is important to highlight up front that this evaluation does not systematically address three issues related to growth and adjustment in IMF-supported programs. First, it does not examine how the scale of access to IMF resources provided to program countries affected growth and adjustment outcomes. Clearly there are complicated short-term trade-offs involved. More program financing would ceteris paribus reduce the adjustment need and, hence, could in principle help to alleviate short-term growth pressures. However, such short-run benefits of larger program financing should be weighed against potential gains from stronger adjustment—such as positive confidence effects and lower indebtedness—as well as increased financial risks to the Fund itself and the need for the Fund to have access to a larger resource envelope.

Second, this evaluation does not systematically analyze the trade-offs between different types of policy adjustment (e.g., fiscal, monetary, and exchange rate policies) in program design, nor the macro-financial dimension of program design. The focus of the empirical work is on fiscal policy and exchange rate policy, although the country case studies do look at the composition of adjustment more broadly. This choice in part reflects that fiscal and exchange rate policies are easier to compare across countries, while measurement and data issues are particularly tricky for monetary policies and macro-financial conditions. Moreover, inflation was less of an issue in most IMF-supported programs over the evaluation period due in large part to the downward global trend, while some program countries had no independent monetary policy. Indeed, the case studies prepared for the evaluation generally identified fiscal policy as the central adjustment tool, supported in some cases by exchange rate adjustment, with monetary policy playing a supporting role.

Third, the evaluation does not systematically address the impact of Fund-supported programs on the quality dimensions of growth (e.g., impact on low-income groups, on employment creation, and on the environment). Such outcomes are certainly relevant in affecting growth sustainability. Indeed, as documented in the case studies, issues related to ensuring inclusive growth and protecting the vulnerable received considerable attention in the design of virtually all programs being evaluated, and the evaluation discusses how far such policies were implemented in individual cases. However, even for countries individually there is very limited data available (and presented in IMF country reports) on actual outcomes related to the distribution of income, consumption, or employment and cross-country comparisons are even more difficult. Thus, cross-country evidence is largely drawn from the existing literature focusing on the impact of fiscal adjustment policies.

The remainder of the report is organized as follows. Chapter 2 briefly reviews IMF policies related to program design and how they have evolved over time to give increasing attention to growth. Chapter 3 provides an overview of growth and adjustment outcomes of IMF-supported programs relative to initial conditions, program projections and growth benchmarks. Chapter 4 assesses the growth impact of IMF-supported programs empirically and discusses the role of IMF-supported programs in initiating sustained growth surges from a longer-term historical perspective. Chapter 5 assesses the growth and sustainability considerations incorporated in the macroeconomic frameworks through the lens of fiscal adjustment. Chapters 6 through 9 explore in greater depth a range of policy instruments for supporting growth in the program context, including growth-friendly fiscal policies, structural conditionality, exchange rate flexibility and debt operations. Chapter 10 concludes by summarizing the main findings of the report and provides recommendations aimed at strengthening growth outcomes in IMF-supported programs.