2

ATTENTION TO GROWTH IN IMF POLICIES ON LENDING AND PROGRAM DESIGN

The IMF's attention to growth in the program context has increased over time with different emphasis under different facilities. The EFF was created in 1974 to provide assistance to countries experiencing serious BOP imbalances because of structural impediments or slow growth and an inherently weak BOP position and provides financial support for comprehensive programs, including reforms to correct structural imbalances over an extended period. The ESAF was introduced in 1987 to provide concessional financing to support structural adjustment in LICs. The September 1999 Annual Meetings resulted in a clear mandate to more fully integrate the objectives of poverty reduction and growth into the Fund's operations for the poorest countries. This led to the creation of the PRGT in 2000.

Reflecting in part the increasing attention to growth, the Fund adopted a new set of guidelines on program conditionality in 2002, which replaced the 1979 Guidelines. The 1979 Guidelines focused on stabilization objectives while calling for the Fund to pay due regard to the domestic social and political objectives and economic priorities of the country. The 2002 Guidelines on Conditionality specified that Fund-supported programs should be primarily directed at solving the member's BOP problem without recourse to measures destructive of national or international prosperity and to achieve medium-term external viability while fostering sustainable economic growth.

Notwithstanding the increased attention to growth in the 2002 Guidelines on Conditionality, program design—particularly in non-concessional programs supported by the General Resources Account (GRA)—remained largely focused on achieving programs' primary external objectives. The 2005 ROC recognized that in the context of streamlining conditionality in GRA-supported programs (hereafter, GRA programs), growth can of course be a key aid to sustainability, but measures that would be aimed solely at increasing growth but would have no impact on external sustainability, while laudable, should not be made conditions of GRA programs. At the same time, it acknowledged a risk that streamlining efforts would result in insufficient attention to growth- and efficiency-related reforms in IMF-supported programs (IMF, 2005). Relatedly, the 2007 IEO evaluation on *Structural Conditionality in IMF-Supported Programs* found that there was extensive use of structural conditionality during the period of 1995–2004, but most structural conditions (SCs) had little structural depth, with only a weak link between compliance and subsequent reforms (IEO, 2007). The 2008 revision of the Operational Guidance Note on Conditionality (OGNC) reflected the Board's guidance in response to this evaluation to be more parsimonious in the use of structural conditionality by emphasizing criticality as well as requiring rigorous justification.

The growth impact of IMF-supported programs has received significantly more attention since the GFC. The 2009 Review of Recent Crisis Programs indicated that post-GFC programs accommodated larger deficits in order to cushion the short-run impact on growth (IMF, 2009b). Similarly, the 2011 ROC found that fiscal adjustment was generally restrained in post-GFC programs largely out of concern for contractionary effects and that promoting growth and poverty reduction was a goal in an increasing number of GRA programs (IMF, 2012a; 2012c). It also found that key macroeconomic projections, such as growth, did not display an optimism bias in the aggregate. The 2011 ROC discussed growth in the broad macro-social context, encompassing the quality dimension of growth such as inclusiveness and income distribution. The 2015 Review of Crisis Programs noted that often tepid growth performance during 2008–13 reflected in part factors such as weak global conditions and balance sheet stress (IMF, 2015b).

Increased attention to growth was reflected in the 2013 Jobs and Growth Board paper and the 2014 Revisions to the OGNC. The Jobs and Growth paper indicated that "while ensuring that members achieve their primary goals of correcting their BOP problems and achieving external sustainability, Fund programs should help maintain and strengthen growth as much as possible." The revised OGNC sought to incorporate guidance on conditionality in relation to jobs and growth issues and specifically directed staff to accommodate to the extent possible the preferences and policy choices of country authorities, including on growth, labor market and distributional targets, subject to consistency with resolving BOP problems, macroeconomic stability and all other program goals (IMF, 2014b). It also stressed that staff should ensure that conditionality is well matched to tightly specified program goals, with due regard to the likely program effects on growth, employment and (at least where relevant for growth and stability) income distribution.

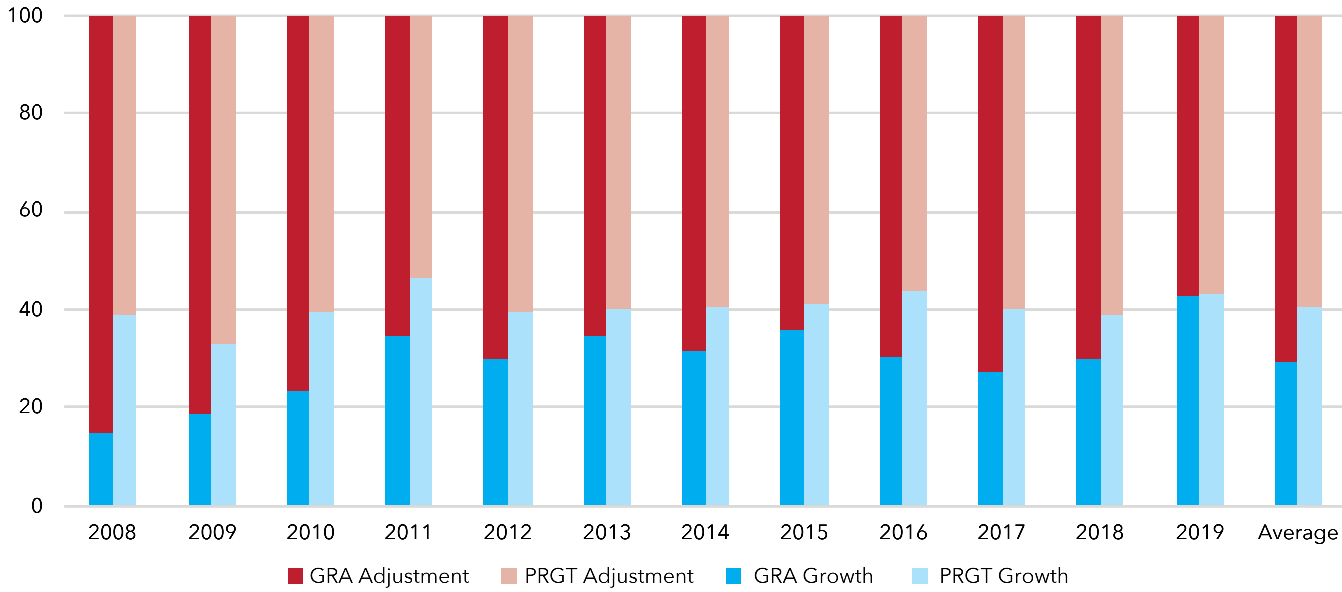
At the same time, other frameworks affecting program design were modified to take more account of the role of growth. For instance, the Fund's debt sustainability analysis (DSA) framework has been refined over time, with greater built-in scrutiny of the realism of growth projections. The 2009 and 2014 reforms of the debt limits policy (DLP) sought to ensure that IMF-supported programs strike a balance between debt sustainability and growth considerations—especially for LICs—by allowing greater flexibility in borrowing to create space for productive investment.

Reflecting the greater attention to growth outcomes, after a period in which structural conditionality was deliberately reduced, structural conditionality has gained greater prominence in recent years as prolonged slow growth has become an increasingly serious concern in many countries as the global macroeconomic environment remained persistently weak (IEO, 2018b). The IMF's increased attention to growth has also been reflected in the composition of program objectives. When program objectives recorded across the 17 categories in the MONA database are grouped into two broad categories of growth and adjustment, the share of growth objectives has increased after 2010 in GRA programs, while remaining relatively stable (at a higher level) in PRGT programs (Figure 1).[3] Still, the average share of growth objectives over the period 2008–19 was about 12 percentage points higher in PRGT programs (40 percent) than in GRA programs (28 percent).

Despite this heightened attention to growth, the 2018 ROC found evidence that growth outcomes tended to fall short of growth projections even as programs were generally quite successful in solving members' BOP problems in the period covered (2011–17). Its analysis suggested that growth optimism during this period was systematically related to an underestimation of the impact of adjustment on growth. It raised concern that, in the program context, growth optimism could trigger adjustment fatigue and undermine debt sustainability and ultimately program success. The 2018 ROC recommended increased scrutiny of the realism of program baselines and strengthened analysis of the growth impact of program policies. To follow up, the staff is now revising the 2014 OGNC, although this work has been delayed by the heavy work demands of responding to the COVID-19 pandemic.

[3] See Kim and others (2021) for technical details about the classification of program objectives.

FIGURE 1. COMPOSITION OF PROGRAM OBJECTIVES: 2008–19
(Percent share of total)



Sources: MONA database; IEO staff calculations.
Note: For each year, the left (right) bar is for GRA (PRGT) programs approved in that year.