THE ACTING CHAIR'S SUMMING UP

INDEPENDENT EVALUATION OFFICE—GROWTH AND ADJUSTMENT IN IMF-SUPPORTED PROGRAMS
EXECUTIVE BOARD MEETING 21/84
AUGUST 30, 2021

Executive Directors welcomed the comprehensive report of the Independent Evaluation Office (IEO) on Growth and Adjustment in IMF-Supported Programs, noting that it comes at an opportune time, as many member countries are seeking Fund support to close external gaps exacerbated by the pandemic, while building sustainable growth. They acknowledged that the overall assessment is broadly consistent with and complements staff's 2018 Review of Program Design and Conditionality (ROC). Directors welcomed that the IEO did not find evidence of a consistent bias toward excessive austerity in Fund-supported programs during the evaluation period and the finding that programs yielded growth benefits relative to a counterfactual of no Fund engagement. They also welcomed the Managing Director's broad support for the IEO findings and recommendations, while noting qualifications in some areas.

Directors broadly agreed with Recommendation 1 that attention to growth implications of Fund-supported programs should become more thorough, systematic, realistic, and sensitive to social and distributional consequences, while reiterating that the core objective of Fund lending is to help members resolve their balance of payment (BOP) problems without resorting to measures destructive of prosperity, as mandated by the Articles of Agreement. While it was also emphasized that growth is fundamental to sustainably resolving BOP problems, there was also recognition of macroeconomic adjustment and sustainable policies as a pre-condition for sustainable and balanced growth. Directors regretted that growth outcomes have often fallen short of program projections and concurred on the need to improve the realism of forecasts but also to pay greater attention to growth outcomes in IMF-supported program design. In this context, they considered that the findings of the IEO evaluation together with the ROC should provide important input to the ongoing review of the operational guidance note on conditionality. A number of Directors also saw merit in reviewing the 2002 Conditionality Guidelines to further clarify the balance between stabilization and growth considerations.

Directors agreed with the need to carefully discuss fiscal multiplier assumptions, while calling for a flexible application of tools, as multipliers are often difficult to estimate and depend on country-specific circumstances. They also recommended paying more attention to contingencies for growth shortfalls, taking into account country specificities and the potential need for confidentiality to avoid adverse market reactions. Directors agreed with strengthening the monitoring of key social and distributional aspects wherever possible, including by working with relevant partners such as the World Bank. Some Directors also encouraged a more systematic assessment of distributional considerations in programs.

Directors broadly concurred with Recommendation 2 that Fund-supported programs pay greater attention to supporting deep, more growth-oriented structural reforms, with more effective capacity development (CD) support and more effective collaboration with partners—such as the World Bank—in areas outside the Fund's core mandate and expertise. They reiterated the need to keep structural conditionality parsimonious and prioritized in line with program objectives, and generally cautioned against veering too far out of core areas.

Directors concurred on the need to assess how CD and surveillance could be better integrated with program design and implementation and looked forward to the conclusions of the ongoing IEO evaluation of Fund CD. While looking forward to the Management Implementation Plan for IMF Collaboration with the World Bank on Macro-Structural Issues, a few Directors encouraged staff and management to propose concrete steps on this matter and to review the experience with World Bank-Fund collaboration in Fund-supported programs.

Directors agreed with Recommendation 3 that the Fund continue to invest in building a toolkit of models and monitors that can be applied as a basis for analysis of the adjustment-growth relationship and assessing growth-related developments in the program context. They welcomed the set of already available models and encouraged staff teams to make use of them on a case-by-case basis and adapt them to better reflect country-specific circumstances. Directors agreed that investing in the Research Department's structural reform database would be helpful.

Directors agreed with the need to avoid "too little and too late" debt restructurings, but they stressed that the Fund has a duty of neutrality, which leaves the design of the restructurings to debtors and their creditors. At the same time, some Directors noted that, in practice, the Fund's debt sustainability analysis provides the Fund with an analytical basis for timely and effective engagement. While a number of Directors considered that there could be greater scope to use exchange rate policy in Fund-supported programs to facilitate adjustment while supporting growth, Directors reiterated the need for a case-by-case assessment of individual country circumstances respecting national decisions on the exchange rate regime. A few Directors saw scope to use the Fund's Integrated Policy Framework to better inform exchange rate discussions between staff and the authorities in a program context.

In line with established practice, management and staff will carefully consider today's discussion when formulating the Management Implementation Plan for Board-endorsed recommendations, including approaches to monitoring progress.