RATIONALE AND EVOLUTION OF EXCEPTIONAL ACCESS POLICY[6]

BACKGROUND

Under its Articles of Agreement, the IMF makes available its financial resources to help "members to solve their BOP problems" while requiring "adequate safeguards for the temporary use of the general resources of the Fund" (Article V, Section 3 (a); IMF, 1944). Over the years, as members' challenges and needs have changed, and as the IMF itself has evolved, the institution has adapted its approach to balancing these considerations. A central issue has been how to deal with the financing needs of countries when these needs are large relative to those anticipated in the IMF's standard policies and procedures. A guiding principle has been to seek appropriately greater safeguards when providing larger financing.

Access limits, defined in terms of members' quotas, play a key role in allowing the Fund to assist members facing BOP needs while seeking to manage related risks by safeguarding the revolving nature of Fund resources. An overarching issue for the Fund's lending has been how to strike the right balance between having adequate flexibility to respond to members' circumstances and foster global stability without creating undue risks to its financial position and its commitment to uniformity of treatment.[7] Access limits play a key role in this regard by linking member's access to Fund's resources to their relative size as defined by their quota. The IMF's Articles of Agreement set limits on members' access to IMF lending at 200 percent of their quota in the Fund but allow the Fund to waive these access limits in certain circumstances.[8] In this respect, adjustments in IMF quotas have historically lagged behind the global economic developments, leading to members' BOP needs in dollar terms occasionally exceeding NA limits as a percentage of quota notwithstanding the Fund's regular adjustments of access limits.

Over the years, in a context of growing member needs, the Fund established supplementary policies, instruments, and facilities to facilitate access beyond the limits set in the Articles (Annex 4). In order to better support members facing exceptional financing needs, the Fund approved the possibility to provide ad hoc supplementary financing (1977), a Supplementary Financing Facility (SFF, 1979), a policy on enlarged

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[6] Abrams and Arora (2024) further discuss the rationale and evolution of the EAP.

[7] Boughton (2001) and Schadler (2013) provide background on the Fund's efforts to play this central role in the international monetary system.

[8] Under Article V, Section 3 of the IMF's Articles of Agreement, a member's purchases cannot cause the Fund's holdings of a member's currency to exceed 200 percent of quota. However, under Article V, Section 4, the Fund may waive these limits at its discretion taking into consideration, among other things, the "exceptional requirements" of the member requesting the waiver. Such a waiver has been routine in Fund lending for several decades. Once separate lending facilities were introduced, separate access limits were set for each facility.

access (1981), an exceptional circumstances (EC) clause (1979, 1983),[9] an emergency financing mechanism (1995), and a Supplemental Reserve Facility (SRF, 1997). These policies and instruments established ways for the Fund to provide access above normal limits, in some cases supplementing Fund financing. The SRF had no limit on access, a feature that was replicated in the EAP. Also notable was the adoption of the EC clause in the Fund's lending framework that allowed it to approve the use of Fund resources by a member in excess of NA limits if the Executive Board determined the member faced exceptional circumstances. The clause did not provide a definition of such circumstances, leaving it to the Board's discretion.

In the 1990s, the Fund approved a series of EA programs that brought to the fore a number of interrelated (albeit not new) issues for the Fund. In the context of growing integration of global financial markets, some members occasionally experienced large and rapid capital flow reversals that gave rise to exceptional BOP needs. The Fund responded with sizable lending programs, 11 of which involved EA starting with Mexico (1995).[10] It did so by invoking the EC clause and, where relevant, the SRF. The experience raised issues having to do with, among others, the general principles for IMF financing, private sector involvement and debt restructuring, moral hazard among debtors and private creditors, and program design.

Like all Fund lending, EA lending needed to conform with the purposes of the Fund, be temporary in character, and help to resolve the member's BOP problems. While Article VI restricts members' ability to use the Fund's general resources to meet a large or sustained outflow of capital, it was well understood at the time that the restriction did not prevent the Fund from financing BOP difficulties associated with the capital account, only from financing "large or sustained" capital outflows.[11] The Articles did not define the concepts of "large" or "sustained;" nor did the Fund's policies and procedures do so, recognizing a need for judgment based on circumstances. In practice, internal documentation and interviewees saw the Fund's judgments in this context as being focused on ensuring the use of its resources was consistent with the purposes of helping members overcome BOP problems and regain medium-term external viability. Program design was seen as key for achieving these purposes.[12]

The Fund recognized the need for more private sector involvement in helping to share the burden of resolving crises. It sought to make progress following the Prague Framework for crisis resolution agreed in 2000.[13] The Fund recognized its own role in catalyzing voluntary private sector financing, which depended on private creditors' confidence in the member's stability. Confidence in turn depended on the size and timing of official financing and adjustment consistent with a credible path to stability. Where financing needs were larger than a credible adjustment path and official financing could handle,

[9] The SFF (1979) provided for access above normal limits "in special circumstances," which established what would become the exceptional circumstances (EC) clause in 1983. The EC clause was separate from the routine waiver required whenever the IMF's holdings of a member's currency exceed 200 percent of quota. The EC clause stated that, "the Fund may approve Stand-By or extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances" (IMF, 1984).

[10] The other cases were Indonesia, Korea, Thailand (in 1997); Brazil, Russia (in 1998); Argentina, Brazil, Türkiye (in 2001); Türkiye and Uruguay (in 2002).

[11] Article VI, Section 1(a) states, "A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund." This prohibition does not cover all capital account transactions, treating some transactions normally regarded as capital flows instead as current (for example, interest payments, moderate amounts of amortization, and capital transactions required in the ordinary course of trade, banking, and other business).

[12] If the Fund judged the design of a member's program as being sufficiently strong to help stem capital outflows, catalyze inflows, maintain adequate international reserves, and restore market confidence, then the approval of Fund financing was seen as not giving rise to large or sustained capital outflows in the context of Article VI. Conversely, the Fund would not approve a program or review that was not strong enough to address the member's BOP difficulties.

[13] The Prague Framework—so called as it was laid out in the communique of the 2000 IMF-World Bank Annual Meetings held in Prague—was based on the principles that official financing is limited, debtors and creditors should take responsibility for their decisions, and contracts should be honored (Fischer, 2002). Under the framework, decisions regarding burden sharing with the private sector would be left to the discretion of IMF management and the Board. It called for restructuring debt through voluntary approaches or "a broader spectrum of actions" by private creditors, but it gave no direction on procedures for doing so (Schadler, 2013).

the question arose as to how the Fund could facilitate orderly debt workouts. However, the Prague Framework did not provide adequate incentives for prompt restructuring and the Fund's proposal to establish a sovereign debt restructuring mechanism (SDRM) did not gain sufficient shareholder support.

EA programs raised concerns at the Fund and outside about moral hazard on the part of private creditors and borrowing countries. If private creditors expected to be "bailed out" in the event of a crisis through borrowers' access to substantial Fund resources, that may lead them to extend more risky credit than was prudent or optimal for the borrower. This concern called for constraining the size of members' access to Fund resources.[14] The concern about borrowers was that large-scale financial assistance, along with mechanisms for debt relief, could encourage unsustainable policies. On balance, the Fund viewed the benefits of EA as outweighing the risks of moral hazard. Managing Director Camdessus (IMF, 1998) noted that private creditors in fact took heavy losses during crises and, regarding borrowing countries, that, "the economic, financial, social, and political pain is simply too great. … countries [do not] show any great desire to enter IMF programs unless they absolutely have to." In addition, conditionality was seen as a safeguard against such moral hazard.

These factors raised important considerations about program design. The trade-off between official financing and external adjustment in such cases was somewhat different than in more traditional IMF-supported programs.[15] While the latter programs entailed relatively smooth financing adjustment trade-offs, in "confidence crises" the size and speed of financing were essential as a key priority was to address the loss of confidence and catalyze private capital flows relatively quickly. Program design in the context of these crises was tailored toward these considerations, for example with the phasing of disbursements being frontloaded to address the need to restore confidence.

While the Fund was able to support members facing crises with EA by using the EC clause on an ad hoc basis, the approach came to be seen as raising a number of concerns that were untenable. The ad hoc approach raised concerns such as whether the large degree of discretion it entailed may compromise the Fund's uniformity of treatment of members, exacerbate moral hazard (notwithstanding the above discussion), lack clarity about the size of EA and about when the Fund would or would not provide exceptional support, expose the Fund to political pressure to provide EA even when the prospects for success were poor or the sovereign debt burden likely unsustainable, and increase risks for the Fund's financial position (IMF, 2002a).

DESIGN AND RATIONALE OF THE EAP

In September 2002, with a view to addressing these concerns, the IMF approved the EAP (Box 1).[16] The EAP applied to Fund support in capital account crises, given the context in which EA needs had generally arisen in the preceding period. It entailed a set of criteria, a higher "burden of proof" in program documents, and EPEs of EA programs (discussed below). The policy sought to allow the Fund to provide meaningful support to members facing capital account crises while strengthening the safeguards on its discretion for doing so and ensuring that "exceptional access remains exceptional" (IMF, 2002b). The EAP was seen as more practical than other alternatives contemplated at the time for ensuring the Fund's capacity to provide exceptional financing with adequate safeguards. Some called it "constrained discretion," that is, the EAP's rules and procedures constrained the wide discretion that the Fund had used under the previous approach.

The policy had four specific objectives that sought to address the concerns with the Fund's previous approach. The objectives reflected in the Summing Up (IMF, 2002b) were to: (i) shape members' and markets' expectations regarding Fund support; (ii) provide clearer benchmarks

[14] Haldane and Kruger (2001) set out a position along these lines. Earlier, in writing about the Asian crisis, Milton Friedman (1999) stated, "The IMF has been a destabilizing factor in East Asia … by sheltering private financial institutions from the consequences of unwise investments."

[15] Ghosh and others (2002) present a comprehensive analysis of the capital account crises during this period, how Fund-supported programs responded to them, and how the Fund's lending framework adapted.

[16] As discussed below, the new framework became fully operational following the February 2003 adoption of enhanced Board procedures (IMF, 2003a).

BOX 1. KEY ELEMENTS OF THE EXCEPTIONAL ACCESS POLICY

The key elements of the Exceptional Access Policy (EAP)—including its original (2002) and current (2016) iteration—and its associated procedures for access to the General Resources Account in excess of NA limits for members facing exceptional needs are as follows:

Criteria to Justify Exceptional Access

CRITERIA	ORIGINAL EAP (2002)	CURRENT EAP (2016)
EAC1: BOP Needs	The member is experiencing exceptional balance of payment (BOP) pressures on the capital account resulting in a need for Fund financing that cannot be met within the NA limits.	The member is experiencing or has the potential to experience exceptional BOP pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
EAC2: Debt Sustainability	A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable.	A rigorous and systematic analysis indicates that there is high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access (EA) will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, EA would be justified if financing provided from sources other than the Fund—although it may not restore sustainability with high probability—improves debt sustainability and sufficiently enhances the safeguards for Fund resources. For purposes of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.
EAC3: Market Access	The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge.	The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.
EAC4: Program Success	The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.	The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

Decision-making procedures. (i) A higher burden of proof is needed in EA program documents—including thorough discussion of need and the proposed level of access, a rigorous analysis of debt sustainability, and an assessment of risks to the Fund arising from the exposure and its effect on the Fund's liquidity. (ii) There are enhanced requirements and expectations regarding early Board consultations for EA cases.

Ex post evaluations (EPEs). An EPE of lending programs supported by EA is required within one year of the end of the arrangement, to be led by staff not involved in the conduct of the program.

Sources: IMF (2002a; 2002b; 2004a; 2004b; 2009c; 2009d; 2016).
Note: The evolution of the EACs during 2002–16 is described in Annex 5.

for Board decisions on program design and EA; (iii) safeguard the Fund's resources by controlling the Fund's assumption of risk; and (iv) help ensure uniformity of treatment of members. The Fund rejected the notion of a ceiling or norm on EA, viewing such a limit as fundamentally constraining the Fund's ability to respond to crises and posing practical challenges.[17] It also decided against adopting a maximum exposure limit for a single member. The Fund agreed that even when members' needs were large, its financing should play a catalytic role for private and other official financing rather than fully fund the need. It also agreed that given the role of quotas in the Fund's financial and governance framework, quotas should remain the metric for calibrating access limits. However, recognizing the effects of quota erosion, it required EA program documents also to gauge access levels against other relevant metrics.

The 2002 EAP and 2004 EAP review papers elaborated further, representing the framework as an attempt "to find a sensible balance among [several] objectives for exceptional access" (IMF, 2002a; 2004a). These were to: "define more narrowly and clearly cases when EA may be appropriate, with increasing constraints as higher access is considered; provide more clarity on the criteria used by the Fund to determine when it may be appropriate to consider EA and when a restructuring of private claims is warranted; provide a better basis for judgments on the appropriate scale of access in capital account crises; put in place internal safeguards to ensure these judgments are made carefully, risks are appropriately weighed, and the Board involved; and preserve the Fund's financial position and safeguard its resources." The Board reiterated that EAP was a key pillar of the Fund's risk management framework (IMF, 2004b).

While the EAP became the definitive policy for EA in capital account crises, the EC clause remained operational for some cases. The Fund accepted that for non-capital account crises, EA requests would continue to be handled by invoking the EC clause, although in a more constrained manner than before 2002 as they would be assessed "in light of" the EACs (although not required to meet the criteria). For capital account cases, while the EACs were required to be met, the EC clause was not explicitly superseded, leaving open the possibility of using the EC clause in some circumstances.

The elements of the EAP were seen as constituting higher safeguards relative to NA, consistent with the requirements in the Articles of Agreement. As noted, among other objectives the policy sought to enhance the constraints and safeguards accompanying higher access. The four EACs were framed differently than the requirements for NA programs, but they were not substantively different than those requirements (except for the one on debt sustainability, EAC2). However, they required more explicit scrutiny and justification. The enhanced procedures and the EPEs were additional relative to NA requirements.

The criteria were intended to work together as part of a coherent whole. For example, Schadler (2013) noted that "the underlying logic of the four criteria was unassailable" and that the criteria formed "an integrated framework." The market access test (EAC3) and debt sustainability test (EAC2) were mutually reinforcing—and also supported the member's capacity to repay the Fund—and neither was likely to be met in conditions of significant BOP pressures (EAC1) unless policies were credible and there were reasonable prospects for program success (EAC4). The assessments of the criteria relied importantly on staff judgment, supported in the case of EAC2 by the Fund's debt sustainability assessment (DSA) framework.[18]

Under the Fund's conditionality guidelines, higher access must be accompanied by greater assurances from the member regarding the temporary nature of the use of Fund resources. The Fund's conditionality

[17] The PRGT-EA policy established in 2009 did include caps on EA, owing to the relatively limited resources under the PRGT. Those caps were removed in 2021.

[18] The tools for assessing debt sustainability have evolved, but what they try to do is to assess public debt projections over a 10-year horizon in the context of the staff's macroeconomic framework. The assessment analyzes both the baseline projection and its sensitivity to a range of shocks in order to determine whether feasible policies are likely to produce sustainable debt. The notion of "high probability" was not defined concretely at the outset of the EAP in 2002 but was made more concrete over time and especially in 2016.

guidelines codify this principle as, "all else being equal, higher access would generally be associated with a stronger program, stronger track record of policy implementation, and stronger capacity to repay."[19] The Fund can only lend when it assesses that the member's policies will enable it to resolve its BOP problems.[20] The EAP as part of the Fund's lending framework and the higher safeguards associated with it (especially the EACs) should, therefore, be seen as enhancing the assurances provided by program design. Aside from debt sustainability (EAC2), however, there was little explicit linkage between the criteria and program design.

The enhanced decision-making procedures, which included procedures for early informal consultations with the Board and a higher burden of proof in EA program documents, sought to strengthen the oversight role of the Executive Board in EA cases. They involved enhancing the flow of timely and candid information to the Board, with protections to maintain strict confidentiality. This was done with a view to ensuring the Board was the locus for key EA-related decisions and to avoid having critical decisions "taken outside the Board in direct interactions between management and key shareholders" (IEO, 2004). They were complementary to the higher "burden of proof" in EA program documents that were required to discuss the need for and appropriate level of access; rigorous debt sustainability analysis; credit and liquidity risks to the Fund; systematic and comprehensive information on the member's capacity to repay the Fund; and an explicit recognition of costs to borrowers and creditors of members incurring arrears to the Fund.

The EPEs represented a vehicle for additional accountability and learning.[21] They are a form of "self-evaluation" in the Fund and provide a means to evaluate the effectiveness of the Fund's involvement with a country, analyze program design and performance, and draw relevant lessons. Specifically, EPEs aim to determine whether the justifications presented for individual programs were consistent with Fund policies and to review program performance. They are designed to reinforce incentives for careful and systematic assessments of sustainability in staff reports, and to give more credibility to judgments about whether exceptional Fund exposure was prudent in view of the higher risks involved.

Relatedly, the EAP does not fully articulate the degree of risk mitigation that its application may provide. When the Fund approves a program, implicitly it accepts the residual risks that remain after the risk mitigation provided by program design and related safeguards. However, the EAP documentation does not substantiate this point and nor does it fully articulate the risks associated with not proceeding with EA support. The Fund's ERM policy adopted in 2022 sets the Fund's risk tolerance, with all GRA lending having to be consistent with the requirements for Fund lending that include adequate safeguards (Box 2). Given that the EAP was created before the Fund had an ERM policy, there was no obvious vehicle in the Fund's lending framework—as there is now—to have such transparent considerations of enterprise risks and the consistency of program approval decisions with the Fund's risk tolerance.

[19] See IMF (2024a), paragraph 26. See also IMF (2002c; 2004a).

[20] The Fund is allowed to seek additional assurances by requiring the member to provide collateral; in practice the Fund has preferred not to do so, in part because seeking collateral could go against the catalytic role of Fund financing.

[21] Chopra and Li (2024) analyze the design and implementation of EPEs and draw lessons that inform this evaluation.

BOX 2. THE EXCEPTIONAL ACCESS POLICY AND ENTERPRISE RISK MANAGEMENT

In December 2022, the IMF Board approved an ERM framework to manage enterprise-wide risks and enhance risk-based decision-making in the fulfillment of the IMF's mandate. The Office of Risk Management (ORM) works across IMF departments as a second line of defense to ensure a consistent approach to risk mitigation, tolerance, governance, culture, and processes, supported by strong IMF-wide communication and reporting across numerous key areas, including strategic, business, financial, operational, and reputational risks.

The ERM Policy calls for the provision of an independent view of assessments of enterprise risk for lending in consultation with IMF departments and requisite Risk Control Self-Assessments to be conducted "on the end-to-end process of an EA program and on the review process." This provision was expected to be implemented in FY2024 or later, although the exact timing of when the assessments would be fully integrated into exceptional access cases was not indicated. Prior to 2022, ORM did not have a mandate to review individual IMF-supported programs. Upon request from other departments, it reviewed two EA programs for Egypt and Ecuador in 2020.

The EAP seeks to meet the objectives of the IMF Articles of Agreement, in particular Article V, Section 3, which provides that the Fund shall adopt policies on the use of its general resources that will assist members to solve their BOP problems in a manner consistent with the Articles and that will provide adequate safeguards for their temporary use. All IMF programs feature conditionality, phasing of disbursements, and assessments of capacity to repay, which serve inter alia to mitigate risks related to the revolving nature of IMF resources and the success of IMF-supported arrangements. The EAP was conceived as a pillar of the Fund's enhanced risk management framework (IMF, 2004a), involving higher safeguards to mitigate the higher risks associated with the higher level of access. However, it does not directly address operational risks, including risks related to human capital resources.

Sources: IMF (2004a; 2022); IEO desk review and interviews.

EVOLUTION OF THE EAP

In the absence of regular dedicated reviews of the EAP after 2004, the EAP evolved in an ad hoc manner, reflecting an effort to adapt the policy to challenges revealed by recent or immediate program cases. These adaptations occurred in 2003–05, 2009, 2010, and 2016 (Box 1 and Annex 5). The EAP reduced the scope for discretion relative to the Fund's previous approach and in principle helped to enhance safeguards, evenhandedness, benchmarks, and expectations about Fund support.

In 2003, the Fund further enumerated the enhanced Board consultation procedures to engage the Board in a timely manner (Box 3). It was agreed that the enhanced procedures would apply to all EA cases, not just capital account crises. The procedures included the requirement that the Board be consulted before staff concluded program discussions and before any public statement on proposed access levels.

Executive Directors agreed that access in restructuring cases would normally be expected to be within NA limits, although there could be "rare circumstances" warranting EA. The implication was that the Board could approve EA by using the EC clause even if not all the criteria were met. In September 2003, the Board approved an EA SBA for Argentina, which was undergoing a restructuring and did not meet the debt sustainability and market access criteria (EAC2 and EAC3).

In 2004, the Fund conducted its only dedicated review of the EAP as a whole. The Board did not make changes to the policy but agreed that future EAP reviews should be undertaken regularly at the same time as access policy reviews and reaffirmed several guidelines, including the following. First, EA cases should be few in number, in order to safeguard the revolving nature of Fund resources and manage financial risks. Second, the Board did not support the notion of applying EAP for precautionary purposes or for non-capital account crises, preferring to retain the flexibility to grant

BOX 3. ENHANCED BOARD CONSULTATION PROCEDURES FOR GRA EXCEPTIONAL ACCESS

The enhanced Board consultation procedures in EA cases had several features:

- Once management decides that EA may be appropriate, it will consult with Board promptly in an informal meeting that will provide the basis for consultation with capitals and help identify issues that would be addressed in a further informal session.
- Directors are to be provided a concise note circulated at least two hours before the informal meeting that includes as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outline of the needed policy measures: (iii) the basis for judgment that EA may be necessary with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of external and sovereign debt sustainability; and the likely timetable for discussions.
- Before the Board's formal consideration of the Use of Fund Resources staff report, additional consultations will normally be expected to keep the Board abreast of program-financing parameters including: (a) assumed rollover rates; (b) economic developments; (c) progress in negotiations; (d) any substantial changes in understandings; and any changes to the initially envisaged timetable for Board consultation.
- In this connection, staff will provide the Board with a separate report evaluating the case for EA based on further consideration of the four substantive criteria, including debt sustainability. Where time permits, this report will be provided to the Board in advance of the circulation of program documents. In all cases, this report will be included with the program documents.
- Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.
- Strict confidentiality will need to be maintained and public statements by members, staff, and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

Sources: IMF (2003b; 2003c; 2004c).

EA under the EC clause.[22] In connection with exit strategies, Directors recognized that BOP difficulties of countries then receiving EA appeared to be of a medium-term nature and did not rule out the possibility of continued Fund financing for some of these countries for a period of time.

In 2009, reflecting the 2002–09 experience as well as the GFC, the Fund made significant changes to the EAP.

- Revisiting its positions of 2004, the Board approved the use of EAP for non-capital account crises and for meeting potential BOP needs (that is, for precautionary programs). To explain the change, the policy paper (IMF, 2009a) noted the asymmetry in the treatment of capital versus non-capital account crises in the existing approach, whereby there was greater flexibility for non-capital account EA cases as these were assessed "in light of" the criteria but not required to meet them. The asymmetry led to a perception that access decisions in non-capital account cases were ad hoc and unpredictable and that EA in capital account crisis cases was more constrained. The paper recognized the potential crisis prevention role of the EAP.

[22] Concerns about EA as insurance against potential (as opposed to actual) BOP needs included that it could create moral hazard, weaken the role of conditionality, and lead to exaggerated market expectations about the size of Fund support. It would also have required changing the criteria (EAC1). Regarding non-capital account crises, Directors recognized that a need for EA could arise in such situations, but these were expected to be rare. They did not believe it was appropriate for the Fund to develop a separate set of EAC for such cases, which would also be hard to implement as a sharp distinction between the drivers of a crisis may not be immediately apparent. The staff paper noted that for non-capital account cases the request would be judged "in light of the four substantive criteria" but the approval of the request would not be conditioned on meeting the criteria.

- While there was no Board decision that explicitly dropped the EC clause, the extension of the EAP in 2009 effectively ensured the clause no longer applied. During 2002–09, the Fund had applied the EAP to several capital account crisis cases, while also making use of the EC clause, including for a few capital account cases (Table 2). The applicability of the EAP to both capital and non-capital account crisis cases, whether to meet actual or potential BOP needs, effectively brought all GRA EA programs within the control of the EAP.[23, 24]

- EAC2 and EAC3 were clarified. EAC2 was revised to refer clearly to public debt (both external and domestic), where previously the focus was on external debt (both public and private). Further, while previously EAC2 was based on assessing debt sustainability based on the member's existing (not future) policies, it was now to be applied in a forward-looking manner that took into account future programmed fiscal adjustment and any explicit commitments by the member to restructure public liabilities. EAC3 was modified to recognize first-time issuers as being eligible for EA, it removed the reference to Fund financing as "a bridge" to private financing, and it dropped the reference to "good" prospects for market access in an effort to acknowledge that the horizon was only when Fund payments came due and not when the program ended.

- The Fund also introduced an EA policy for lending from the PRGT (Annex 1). The criteria were informed by the GRA-EAP although the BOP criterion required the member to experience an actual BOP need, the market access criterion was framed differently,[25] and the debt sustainability criterion took into account members' risk of debt distress. The policy included the system for early Board consultations adapted from the GRA-EAP. The PRGT-EAP also had hard caps on EA (150 percent of quota annual, 450 percent cumulative), reflecting the relatively constrained nature of PRGT resources.[26] The PRGT-EAP included a requirement that the relevant program and the member's ability to repay the Fund be "comparatively strong." The requirement was deemed not to be met by countries at high risk of debt distress, or in debt distress, absent debt relief or restructuring.

In the same year, an ad hoc review of access limits doubled the normal annual and cumulative access limits. Historically, adjustments in IMF quotas have not always kept pace with changes in the global economy. That is, quotas have "eroded" as a share of GDP and other metrics for a number of mainly emerging and developing countries. Periodic quota reviews and changes in access limits have temporarily alleviated the erosion, which has however continued over time (Box 4 and Annex 6). Given that access limits are set as a percent of quota, an implication of quota erosion has been that members' BOP needs in dollar terms sometimes substantially exceeded their NA limits.[27] The increase alleviated for some time the effect of "quota erosion" on access that, however, resumed over time.

[23] The Flexible Credit Line (FCL) was created in 2009 as a window within the credit tranches, allowing for potential EA but not falling within the coverage of the EAP given its rigorous qualification requirements and the fact that its procedures are substantially similar to the EAP (IMF, 2009a). FCLs are not regarded as IMF "programs" given their lack of ex post conditionality and related features.

[24] From early 2003, when the EAP became fully operational, through 2009, the Fund approved 19 EA programs, of which 12 were approved using the EAP and 7 were approved using the EC clause. Of the latter, 4 programs related to capital account crises: the Brazil (2002) program and its 2003 augmentation; the second Argentina (2003) program, which involved debt restructuring for which the Board made an exception for EAC2 and EAC3; and the Uruguay (2005) and El Salvador (2009) programs which were precautionary—involving a potential but not actual EA need, hence, not meeting EAC1.

[25] Members must have Gross National Income per capita at or below the prevailing operational cutoff for assistance from IDA and must not have had sustained past access to international financial markets (IMF, 2009e). This criterion was modified in 2021 (see Annex 1).

[26] These caps were removed in 2021 in the context of a broader reform of the PRGT-EAP. In September 2020, additional safeguards were put in place to apply when PRGT-eligible countries sought access to Fund financial support using a mix of GRA and PRGT resources that on a combined basis exceeded the EA thresholds in the GRA or the PRGT, even though taken separately they may not exceed EA thresholds under the GRA or PRGT.

[27] However, access levels in most EA programs were well above NA limits, suggesting that erosion may have had only a limited role. The empirical results in Bal Gündüz (2024) suggest a member's quota relative to its economic size matters more for the access level itself than for whether a program is likely to be EA.

BOX 4. ACCESS LIMITS AND THE "EROSION" OF QUOTAS

Changes to access limits have generally (but not always) been linked to the General Reviews of Quotas (GRQs) and effectiveness of quota increases.[1] During 1994–2008, annual and cumulative access limits remained constant at 100 percent and 300 percent of quota, respectively. After the 45 percent increase in quota in 1998, related to the 11th GRQ, access limits were maintained as a percent of quota, resulting in an increase in SDR terms.

In 2009, an ad hoc review of access limits resulted in the doubling of annual and cumulative access limits, which were later reduced following the 14th GRQ. Annual and cumulative limits were raised to 200 percent and 600 percent of quota, respectively (IMF, 2009a). In 2010, the Board approved a doubling of quotas during the 14th GRQ that took effect in 2016 leading to a reduction of access limits in terms of quota to 145/435 percent (annual/cumulative), which corresponded to an average increase of 45 percent in SDR terms (IMF, 2016).

More recently, since the COVID-19 crisis, the Fund has undertaken temporary adjustments to access limits to better support the membership in a context of extraordinary exogenous shocks. In July 2020, in the context of the COVID-19 pandemic-related shock, the annual access limit was temporarily raised from 145 percent to 245 percent of quota, initially for 12 months and later extended through end-2021 (IMF, 2020a), and reverting to 145 percent in 2022. At the time, the policy paper evaluated the possibility of "carving out" emergency financing (EF) from the calculation of annual and/or cumulative access limits, an option that would have allowed for additional borrowing space (so-called "additionality") under the EF without triggering the EAP (IMF, 2020a). While this option received some support, overall, it was viewed as favoring specific types of Fund financing, like EF, over others such as UCT-quality arrangements. Instead, the Fund preferred the option of temporarily raising the annual access limits across the board and staff argued that such a proposal provides "at least as much benefit to all borrowers as would a complete carve-out of all emergency borrowing for one year." The cumulative access limit was left unchanged at 435 percent. In March 2023, both annual and cumulative access limits were temporarily raised to 200 percent and 600 percent of quota (IMF, 2023). This increase was initially approved for a period of 12 months and was subsequently extended until end-2024.

During 2002–23, aggregate quotas as a share of relevant metrics trended down ("erosion"), reflecting declines relative to GDP, current payments, and capital flows, affecting especially emerging market and developing economies (EMDEs) (Annex 6, Figure A6.1, panel A). Periodic quota and access limits reviews temporarily interrupted the erosion, which however continued over time and was pronounced for a number of mainly emerging and developing countries. By 2023, EMDEs' access limits in relation to their GDP, current payments, and especially capital flows were lower than in 2002 (Annex 6, Figure A6.1, panel B). For advanced economies (AEs), the picture is different. AEs' access limits in relation to the same variables on average have trended upward since 2009. The global average in turn reflects the AEs' influence, although aggregate quotas relative to current payments dipped below their 2002 level in 2022.

The erosion of quotas relative to other metrics for several countries reflects the relatively slow increases in quotas and access limits relative to such metrics. It implies that, all else equal, absent an increase in quotas, countries' BOP needs can exceed the NA limits. Further, in countries with very small quotas, quota levels might not be sufficient to address BOP needs. Further, in countries with very small quotas, quota levels might not be sufficient to address BOP needs.[2] Meeting these needs would require an increase in quota (so that quota-based access limits deliver increased financing in SDR terms), or higher access limits, or EA. In order to maintain annual access limits relative to GDP at their 2002 level, in 2023, annual access limits as a percent of quota would have needed to be around 245 percent for EMDEs (201 percent excluding China; Annex 6, Figure A6.1, panel E), and 99 percent for AEs. Cumulative access limits would have needed to be around 735 percent for EMDEs (604 percent excluding China), and 296 percent for AEs.

Sources: IMF (2009a; 2016; 2020a; 2021b; 2023); IEO calculations.

[1] This box discusses access limits in the GRA. For the PRGT, access limits are linked to comprehensive reviews of low-income countries facilities.

[2] For example, the IEO evaluation on *IMF Engagement with Small Developing States* discussed how the very low quotas of such members constrain the size of their NA limits in nominal terms (IEO, 2022).

In 2010, the IMF altered EAC2 by creating the so-called "systemic exemption clause."[28] The clause was created in the context of the Greece (2010) SBA to allow EA to proceed even though debt sustainability did not meet the "high probability" bar on the grounds that not proceeding with the SBA would create systemic spillovers given the absence of financial firewalls in the euro area. The Board approved the program and, through this decision, altered the EAP to include the systemic exemption. The manner in which the change was made gave rise to evenhandedness concerns at the time.[29] The exemption was then also applied for the Ireland and Portugal programs, as well the successor program with Greece, where the staff reports were not able to assure debt sustainability with high probability.

In 2016, the Fund revisited EAC2 removing the systemic exemption clause and introducing the so-called "gray zone." It deemed that the clause had proved unreliable in mitigating contagion and had the potential to increase "subordination risk" for private creditors, delay the restoration of debt sustainability, and aggravate moral hazard. At the same time, the Fund widened the scope for a member to have EA when its debt was sustainable but not with high probability, that is the gray zone, by providing a way to avoid costly debt restructuring. If debt was in the gray zone, EA could proceed provided that the member was able to obtain non-Fund financing that improved debt sustainability and enhanced the safeguards for Fund resources. One way it may be able to do so was by "re-profiling" the debt (seen as an extension of maturities without a reduction in face value) that may be less costly and disruptive than a full restructuring.

When the EAP was introduced, the Fund did not see much scope for increasing the rate of charge (surcharges) to discourage EA (Annex 7). Surcharges were introduced before the EAP came into being, with the intention of providing members with incentives to repay the IMF early, limit the size of IMF borrowing, and diversify their sources of financing. Over time, surcharges have become a source of Fund income and precautionary balances. There is also much public discussion about their appropriate role, but that is beyond the scope of this evaluation.[30]

The EAP is part of the array of policies in the Fund's lending framework and has linkages with other key policies.[31] In terms of the Fund's lending instruments, during 2002–09 all EA programs were SBAs but since 2010, several EFFs have been approved that recognize members' medium-term BOP and structural reform needs (starting with Ireland, and including Argentina, Ecuador, Egypt, Greece, Portugal, Ukraine). The Fund's financing assurances policy seeks to ensure a member's program is fully financed and sets out standards for credible assurances in the near term and medium term, including in the context of debt restructuring if relevant. The Fund's lending into arrears (to private creditors) and lending into official arrears (LIOA, to official creditors) can also be relevant for EA programs. Motivated in part by significant delays in gaining official creditor assurances in recent programs involving debt restructuring, in April 2024, the Board approved a set of reforms that included new LIOA procedures that would apply to EA programs. The debt limits policy includes a transparency requirement with respect to information about debt holders. Such information is important for assessing EAC2, which requires a granular understanding of the investor base.

[28] Separately, in 2010 the IMF created the Precautionary Credit Line (later changed to the Precautionary Liquidity Line, PLL). The PLL could be used by countries that faced potential (not actual) BOP needs and had sound fundamentals, policies, and frameworks but whose remaining vulnerabilities precluded them from using the FCL. PLL arrangements were subject to the GRA access limits and to the EAP, but they also had separate qualification criteria that were somewhat broader than the EACs.

[29] The IEO evaluation of the euro area programs (IEO, 2016) noted there was a strong perception among stakeholders that the way in which the systemic exemption was introduced—in the staff report for the Greece (2010) program request (IMF, 2010a) rather than through a separate policy paper—gave many Executive Directors little opportunity to reflect duly on the policy change (de Las Casas, 2016). See also Schadler (2016).

[30] After the evaluation period, in October 2024, the Board approved an increase in the threshold for level-based surcharges and a reduction in the rate for time-based surcharges effective November 1, 2024.

[31] Among others, these include the policies on access limits, capacity to repay, credit tranches, conditionality, debt limits, debt sustainability, facilities, financing assurances, lending into arrears/official arrears, non-toleration of arrears, and phasing. These linkages are explained further in Abrams and Arora (2024) and Erce (2024).

The fact that changes to the EAP were not made on a regular schedule but often in response to high-profile cases created a perception of lack of evenhandedness. The evolution of the policy as described above sought to encompass the 2002–09 experience in a comprehensive manner in 2009, but after that it responded to specific cases. The 2010 systemic exemption was introduced for the case of Greece and was used only in the euro area EA cases and the gray zone introduced in 2016 has so far been used for EA lending only to Argentina and Egypt. A perception among several stakeholders has been that the Fund accommodated changes for high-profile cases but was less flexible for others.