The IMF's Exceptional Access Policy: Exceptional Access Criteria Part I: EAC1 and EAC4

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<div align="center">Contents Page</div>

ABBREVIATIONS

AAL	Annual Access Limit
BOP	Balance of Payments
CAL	Cumulative Access Limit
CtR	Capacity to Repay the International Monetary Fund
DSA	Debt Sustainability Analyses
EA	Exceptional Access
EAP	Exceptional Access Policy
EAC	Exceptional Access Criteria
EFF	Extended Fund Facility
EMPI	Exchange Market Pressure Index
ERR	Exchange Rate Regime
ESM	European Stability Mechanism
FCL	Flexible Credit Line
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFN	Gross Financing Need
NA	Normal Access
OGN	Operational Guidance Note on Program Design and Conditionality
PCL	Precautionary Credit Line
PLL	Precautionary and Liquidity Line
RFI	Rapid Financing Instrument
SBA	Stand-By Arrangement
SDS	Small Developing States
SLL	Short-term Liquidity Line
SRDSF	Sovereign Risk and Debt Restructuring Framework

EXECUTIVE SUMMARY

This paper evaluates the design and implementation of two of the Exceptional Access Criteria (EAC) under the IMF's Exceptional Access Policy (EAP) adopted in 2002. The first criterion (EAC1) requires the presence of actual or potential "exceptional" balance of payments (BOP) pressures. The EAP initially applied only for IMF lending to members dealing with actual capital account crises. In 2009, its scope was broadened to also encompass current account crises and potential (not just actual) BOP needs. The fourth criterion (EAC4) requires that exceptional access (EA) programs should have reasonably strong prospects for program success, including the member's institutional and political capacity to deliver the required adjustment.

While most stakeholders perceived EAC1 as objectively quantifiable, empirical evidence suggests its application in borderline EA decisions merit further scrutiny, including for evenhandedness. The evaluation empirically identified several normal access (NA) programs with BOP needs comparable to those in EA programs. This finding raises questions on evenhandedness but does not by itself imply lack of it as access decisions involve a number of considerations. Area departments do not have a list of countries that expressed interest in but did not receive EA programs. This lack of information poses a challenge to evaluating evenhandedness in this respect. The empirical results show that, other things equal, countries with lower income per capita and smaller relative economic size (measured by their share in world gross domestic product (GDP)) are less likely to get a program with EA rather than NA. EAC1 lacks cross-country analytical tools that could provide a benchmark to identify "exceptional" BOP needs. Ex ante use of such analytical tools could further facilitate evenhandedness by systematically identifying cases with "exceptional" BOP needs for higher scrutiny, which would involve explicitly making the case for why an NA, not an EA, program is appropriate during the review process and to the Board. Keeping a systematic and transparent record of such NA cases would raise the evidentiary standards for evenhandedness.

The evidence suggests that access decisions in EA programs for countries whose debt is sustainable but not with high probability (the "gray zone") receive less scrutiny than may be warranted by the EAP objectives of providing a benchmark for difficult decisions and safeguarding Fund resources. This conclusion is supported by the experience with the gray zone cases, the empirical evidence on repeated use, and the literature on the catalytic impact of the IMF lending. This paper provides empirical evidence consistent with repeated or prolonged use of IMF credit: the higher a member's outstanding debt to the IMF as a share of its cumulative access limit, the greater the likelihood of a successor program. The empirical literature indicates at best a weak catalytic impact of EA lending for countries with debt in the gray zone. Programs have a catalytic effect in countries with moderate levels of initial external debt or international reserve, but it is weaker or even negative where reserves are low or external debt is high. A deterrent to private inflows in some cases may be the "subordination risk" faced by private claims relative to senior (official) claims.

When external conditions improve significantly, EA programs generally have continued to disburse at programmed levels even where the member's external obligations are already large. Rigorous re-assessments of EAC1 at each program review could help limit excessive buildup of IMF debt by evaluating whether a more favorable external environment has reduced or eliminated an actual BOP need. IMF conditionality usually includes automatic adjustors to capture the upside through higher reserve accumulation, although some EA programs did not have such adjustors. There was no mechanism other than reserve accumulation to capture the upside risk. Besides accumulating additional reserves, informed by reserve adequacy assessments, programs could prepare an exit strategy under which a reduction in the access level or a switch to a precautionary program (if only a potential BOP need remains) could be contemplated without jeopardizing adverse market reactions, supported by effective communication.

Many considered EAC4 to be the most important criterion as a key foundation for any program is that it must have reasonable prospects of success, taking into account the member's political and institutional capacity to deliver the needed adjustment. However, the lack of a concrete framework to assess EAC4 appears to be a problem for effective implementation. While staff generally have a good sense of the authorities' political and institutional capacity to deliver the required adjustment, benefiting from the field presence of resident representative and ongoing dialogue with the authorities, they lack a consistent basis for making these assessments. Upcoming elections during the program period can make it harder to assess EAC4 as the average implementation rate was lower in EA programs with upcoming elections than those without elections. The Fund has sought political assurances of commitment to program policies from across the political spectrum in EA cases, but these assurances do not appear to be associated with greater chances of program success.

The evaluation collected views on how to substantiate a framework for EAC4. The suggestions included integrating the full set of debt sustainability analyses (DSA) realism tools with the macro-framework; using Integrated Policy Framework (IPF) models to inform the exchange rate pass-through to inflation; assessing past performance on certain policy measures (such as value-added tax (VAT) reforms, central bank independence, subsidy reforms, exchange rate flexibility); using the history of Fund engagement (both program and surveillance); using prior actions and reviews more effectively; and tailoring program duration and the type of the arrangement well to the nature of the BOP pressures (specifically by presuming a four-year Extended Fund Facility to resolve the structural BOP problems). It is also important to engage with a wide section of stakeholders, including not just political counterparts but also civil society, industry, opinion makers, and others to form an objective view of the member's political and institutional capacity.

For fulfilling EAC4, program design needs to pay attention to the social and political implications of program measures and ensure social protection. It is especially important to protect the most vulnerable from the adverse effects of macroeconomic adjustment on poverty and inequality, including through close collaboration with partners, particularly the World Bank.

I. INTRODUCTION

1.   **This paper has been prepared in support of the 2024 IEO evaluation on The IMF's Exceptional Access Policy (EAP) and evaluates the design and implementation of two of the four Exceptional Access Criteria (EAC)**. It evaluates the first criterion on the assessment of exceptional balance of payments (BOP) pressures (EAC1) and the fourth criterion on reasonably strong prospects for program success, including the member's institutional and political capacity to deliver the adjustment envisaged under the program (EAC4).[1]

2.   **The EAP was introduced in 2002 against the backdrop of capital account crises across several emerging market countries in the years before**. It was recognized within and outside the Fund that these crises were different than the earlier ones the IMF was accustomed to handling. The IMF programs with Mexico and three Asian crisis countries in the mid/late 1990s led to the creation of the Supplementary Reserve Facility (SRF) and Contingent Credit Lines (CCL), which had no defined access limits and identified some of the circumstances under which exceptionally large access could be granted. For providing such "exceptional access (EA)"—that is, access above a member's normal annual or cumulative limits as a percent of quota—the Fund used the "exceptional circumstances" clause in its lending framework to allow use of Fund resources in excess of normal access (NA) limits (see Abrams and Arora, 2024). Although the number of cases with EA was limited, the amounts committed under such lending were large, leading to calls for an "EA policy."[2]

3.   **The EAP introduced four substantive criteria to achieve the following four key objectives of the EAP while allowing the Fund to support members facing exceptional BOP needs:** (i) help shape the expectations of members and markets; (ii) provide a benchmark for difficult decisions regarding program design and access; (iii) safeguard Fund resources; and (iv) ensure uniformity of treatment of members.

4.   **In 2009, the Fund modified the EAP, broadening its application to (i) current account crises, and (ii) precautionary settings.** Box 1 presents the evolution of EAC1 and EAC4. In 2004, the Board asked that all requests for EA be considered "in light of the four substantive criteria" (IMF, 2004). For capital account crises, the criteria were required to be met; for non-capital account crises they were assessed but were not required to be met. The reform to the Fund's toolkit in 2009 focused on this asymmetry in the treatment of capital versus noncapital account crises (IMF, 2004; 2009a; 2009b). Staff noted that such flexibility in noncapital account crises led to a perception that access decisions in these cases were ad hoc and unpredictable while having the ironic effect of constraining EA in cases where it might be most appropriate (capital account crises) while allowing greater flexibility in other cases. Moreover, acknowledging the crisis prevention role of the precautionary General Resources Account (GRA)

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[1] The other two criteria, EAC2 on debt sustainability and EAC3 on market access, are covered in Erce (2024).

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

arrangements, the Board decided to remove the constraints on precautionary EA lending. These considerations led to allowing EA for potential and actual BOP needs stemming from both capital and current account crises.

Box 1. The Evolution of EAC1 and EAC4, 2002–23		
EAC1	2002	The member is experiencing exceptional balance of payment pressures on the capital account resulting in a need for Fund financing that cannot be met within the normal access limits.
	2004	… [Requests involving access in excess of the limits] in cases of members not facing a capital account crisis shall be justified in light of the four substantive criteria.
	2009	The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
EAC4	2002	The policy program of the member 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.

Sources: IMF (2002a; 2002b; 2004a; 2004b; 2009a; 2009b).

5.   **Drawing on the experience during the 2002–23 evaluation period, this paper addresses the following key evaluation questions related to the design and the implementation of EAC1 and EAC4:**

- How does the IMF determine the level of access in EA arrangements (EAC1)? How does this determination differ from NA arrangements? How does it reflect the member's BOP needs and the role of other official financing?

- What does the determination of EA levels reveal in terms of meeting the members' needs, the consistent application of the EAP, and evenhandedness?

- How does the IMF assess ex ante the prospects for program success (EAC4) and the extent to which program outcomes bear out the ex ante assessments? Where ex post and ex ante assessments differ, what are the main reasons and what are the key lessons regarding the ex ante assessments?

6.   **The evaluation evidence and structure of the paper are as follows**. Evidence was collected through desk review of internal and published IMF documents, review of literature, empirical analysis, and interviews with Fund management and staff, Executive Directors, and external stakeholders. The paper is organized as follows: Sections II and III evaluate the design and implementation of EAC1 and EAC4, respectively. Section IV concludes with assessments and lessons.

II. DESIGN AND IMPLEMENTATION OF EAC1

A. Design

7.   **This section evaluates whether EAC1 is well-formulated, clear, methodologically sound, implementable, and monitorable by the IMF, given the available tools and expertise.** Overall, the design of EAC1 is assessed against its alignment with the four objectives of the EAP: (i) help shape the expectations of members and markets; (ii) provide a benchmark for difficult decisions regarding program design and access; (iii) safeguard Fund resources; and (iv) ensure uniformity of treatment of members.

8.   **While the same guidance[3] applies for determining access levels in EA cases as in NA cases, EAC1 requires that documents for EA cases provide justification for why the BOP need cannot be met within NA limits.** The IMF seeks to balance the needs of members against ensuring the temporary use of its resources and determines the access level according to the following governing criteria:

- The member's actual or potential BOP need,[4] taking into account other sources of financing, the catalytic effect of a program, and the desirability of maintaining a reasonable level of reserves.

- The member's capacity to repay the IMF (CtR), taking into account the strength of its adjustment program.

- The member's outstanding IMF credit and its past record in using the IMF resources.

9.   **Although the concept of a BOP need is well defined, the guidance recognizes that its assessment requires judgment.** According to the guidance, a given need does not in itself justify a given level of access, since there are no fixed rules relating access to need. The only limitation is that Fund resources cannot be used in the absence of a BOP need and their use cannot exceed the extent of that need. Especially for countries with established access to international capital markets, market responses to the availability of official financing may be unpredictable. Furthermore, various factors need to be considered in making a judgement as to what constitutes a weak reserve position. All staff reports and briefing papers dealing with requests for the use of Fund resources (UFR) (including precautionary arrangements), and reviews of these arrangements, are required to include a table summarizing the information necessary to compute the member's gross financing needs (GFN), a commonly used measure of the member's BOP need, and its financing sources. Any financing not yet agreed with creditors should be included in the financing gap.

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[3] IMF (2000).

[4] A BOP need may arise because of a member's BOP position, or its reserve position, or developments in its reserves (IMF, 2020; Article V, Section 3(b)(ii)).

10.   **At the inception of the EAP, staff acknowledged a circularity in defining the external financing need (IMF, 2002a**). By the time the program is agreed, the financing need cannot exceed the financing available. It takes several iterations to converge to an economically and politically feasible program design and financing that will satisfy both constraints. As discussed below, this circularity is likely more pronounced in EA cases experiencing capital account crises given the high uncertainty in the projections of capital flows. IMF (2002b; 2004a; 2004b) highlighted that while IMF financing could be the main source of official financing in the early stages of capital account crises, it was expected to cover only a portion of the GFN. Notably, at the time the debt sustainability criterion (EAC2) precluded EA lending unless the debt is sustainable with high probability, thereby ringfencing such lending primarily to cases involving liquidity but not solvency shocks.

11.   **Overall, justification of access and EAC1 is intertwined with the other EACs.** The member's ability to service its debt to the IMF depends on whether IMF financing can support an economically and politically feasible adjustment path (EAC4) that would lead to a sustainable macroeconomic situation in the medium-term, including debt sustainability (EAC2) and market access (EAC3). In the absence of a feasible adjustment path to medium-term sustainability, the IMF can only help in the context of a debt restructuring (EAC2). The revisions to the EAP in 2010 and 2016 allowed ways for the Fund to approve EA even if the member's debt was assessed to be sustainable but not with high probability (Erce, 2024). Compared to the original EAP, these revisions distorted the initial coherence among EAC by expanding EA beyond liquidity crises to cases where solvency was more uncertain. As a result, if EAC2 was met it no longer followed that market access prospects (EAC3) would likely be strong.

12.   **While the Fund reflects members' financing needs in its determination of access levels, the reverse is not always true.** Desk review and interviews suggested the Fund does not systematically take into account the implications of higher access for future financing needs, especially through confidence effects and the subordination risk. Assessing the BOP need is particularly difficult in capital account crises as its size can be larger and more uncertain than in traditional current account crises. Since the timing and size of IMF assistance as well as the credibility of the required adjustment are all important for restoring investor confidence, there can be endogeneity between the BOP need, IMF support, and the adjustment program.

13.   **Evidence suggests a need for greater scrutiny of access decisions in EA programs for countries whose debt is sustainable but not with high probability (the "gray zone") under EAC1 in order to help achieve the EAP objectives.** Despite greater uncertainty in restoring investor confidence in the gray zone than in the green zone (that is, where debt is sustainable with high probability), access decisions in the former do not require a more robust realism check for the projected catalytic impact. The empirical literature indicates at best non-existent, at worst negative, catalytic impact of IMF lending in the gray zone (Box 2). There is evidence of a positive catalytic effect only for countries with "intermediate" range of external debt or international reserves. For large programs, subordination risk is found to reduce, and potentially reverse, the catalytic impact. Notably, both gray-zone cases since the revision to the

EAP in 2016 had successor programs. The empirical evidence in this paper is also consistent with repeated or prolonged use of IMF credit: the higher a member's outstanding debt to the IMF as a share of its cumulative access limit, the greater the likelihood of a successor program.

Box 2. Literature Review: Catalytic Impact of IMF-Supported Programs

The literature on the catalytic financing effect of IMF programs focuses on the effect on private capital flows in emerging market economies (Bird and Rowlands, 2002, 2009; Morris and Shin, 2006; Mody and Saravia, 2006; Cottarelli and Giannini, 2002). This research did not find a uniform and significantly positive catalytic impact, but it did report some non-monotonic positive impacts depending on the initial economic conditions of recipient countries and the types of private flows.

Bird (2007) underscores little empirical support for strong, consistent, and positive catalytic impacts. Steinwand and Stone (2008) point out that a clear finding of the literature is that the catalytic effects of IMF lending are not uniform across countries. Studies that investigate the possibility of non-monotonic effects find positive catalytic effects only for countries in a middle range of economic indicators for wealth or financial stability.

Mody and Saravia (2006) find a positive catalytic effect only when economic fundamentals are at least moderately strong. They report that IMF program participation lowers bond spreads and increases bond issuance for countries with moderate levels of foreign reserves, while countries with higher levels of reserves experience negative catalytic effects (higher bond spreads) and at the lower end have neither positive nor negative catalytic effect. For external debt-to-gross national product, they similarly find strong non-linear effects: IMF programs are effective in reducing spreads (increasing bond issuance) when the external debt is between 36 percent and 54 percent (24 percent and 63 percent) of GDP.

More recently, Krahnke (2020) reports that the catalytic effect of IMF financial assistance is weakened—and potentially reversed—if the size of a program exceeds a certain level, reflecting the increased risk of subordination. Using Krahnke's methodology, Montiel, Cohen-Setton, and Li (2024) show that while NA programs have a positive catalytic effect, EA programs have on average an anti-catalytic effect on private capital inflows, driven primarily by multiple crisis programs. Conversely, Chahine, Panizza, and Suedekum (2024) find a reduction in borrowing costs at approval, which increases with the size of the program. However, their sample is restricted to 23 countries which kept market access both before and after the program, excluding more severe cases that lost market access. Gehring and Lang (2020) report a negative but statistically insignificant effect of IMF programs on bond spreads. Regarding the non-uniform catalytic impact, Andresen and Sturm (2024) find that if geopolitics are involved, the approval of a new IMF program increases risk aversion of financial market participants, leading to higher yields, depreciating exchange rates, and weaker stock markets.

Overall, these findings suggest that the IMF programs in the gray zone are unlikely to have a positive catalytic impact on private flows. In fact, EA programs when debt is in the gray zone may even lead to a negative impact owing to subordination risk. Such cases may warrant more scrutiny of the projected catalytic effects, the BOP needs, financing gaps, and the access levels.

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Source: Author's review of the literature.

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14.   **Several interviewees saw merit in differentiating access decisions for the gray versus green zone cases as additional safeguards.** Several former and current senior staff members thought that whether a country was in the gray or the green zone should have a bearing on the access level, and suggested exploring whether EAC1 should include such a consideration. According to one of these interviewees, the higher risks associated with gray zone cases could justify tempering associated access levels. Such risks included risks to the Fund's

finances and liquidity, the impact of super senior debt on market access, and the feasibility of implied high haircuts in the event of debt restructuring. The interviewee acknowledged that the IMF could also use other safeguards, including prior actions and backloaded purchases. A few interviewees emphasized the need for strengthening the analytical basis of capacity to repay assessment in gray zone cases to reflect the higher risks.

15. **While many interviewees considered EAC1 to be objectively quantifiable, a few thought that the IMF's approach to it omitted several relevant considerations.** The latter noted that access levels in EA programs, and indeed all programs, did not robustly reflect the member's capacity to repay the Fund, that access is predicated on over-optimistic baseline scenarios, and that "too much access," wherein the IMF filled a very large share of the financing gap, could increase the risk of overloading countries with super senior debt and provide a disincentive for catalyzing inflows owing to perceptions of subordination risk. Regarding the CtR indicators in the financial liquidity and risk supplement in EA program documents, interviewees considered them useful for comparisons across EA programs. However, they noted a lack of analytical rigor of the CtR analysis and emphasized the importance of program design in CtR to make sure that the program hangs together.

16. **Interviewees felt that rigorous assessments of EAC1 at each program review would help ensure EAP was being consistently observed and this could also help limit excessive buildup of IMF debt.** Reductions in BOP needs after approval resulted in some arrangements switching from disbursing to precautionary, but in other cases not—partly owing to concerns about market reactions. When BOP needs have increased, the Fund has often augmented programs, but when they have decreased, that did not always translate into less IMF financing.[5] With some exceptions, program design generally tried to capture the upside potential by accumulating additional reserves.

17. **In response to a stronger BOP than originally envisaged in programs, authorities typically have either cancelled the arrangement or reduced disbursements**. They cancelled the arrangement and repaid all outstanding obligations to the IMF in the case of Uruguay, did not withdraw the full approved amount in Mongolia, and treated the program as precautionary in Brazil, Hungary, and Latvia. The Uruguay arrangement included a commitment to turn the Stand-By Arrangement (SBA) precautionary if external conditions turned out better than expected. By the fourth review, external conditions were in fact stronger and, financing needs substantially less than envisaged. In Türkiye's 2005 SBA, however, despite strengthening financing conditions and reserves exceeding original targets, the authorities preferred to continue making purchases over concerns that a stop followed by a resumption would draw negative market reactions. In Argentina's 2018 SBA, after disbursing 333 percent of quota at approval, the rest of the program was announced as precautionary. However, by the time of the first review, the financing situation deteriorated, and the program turned to a disbursing

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[5] Fund policies require that modifications to the purchase schedule for a program can only be initiated at the member's request.

arrangement again and, later, was significantly augmented. According to the Argentina case study (de Las Casas and Perez-Verdia, 2024), the precautionary nature of the arrangement was not well understood by the markets, hurting the confidence in the program.

18.   **Experience and interviews suggest communication is key for safely moving from disbursing to precautionary settings.** A market participant opined that market reactions are more positive if a switch to precautionary purchases comes from "position of strength."

B.   Implementation

19.   **Focusing on the implementation across all EA programs, this section evaluates how EAC1 was implemented**, whether it was followed with sufficient rigor and evenhandedness, and whether it was fit for purpose in practice and worked as intended. The key evaluation questions are as follows:

- Did countries with exceptionally large BOP needs generally seek EA? If not, did they seek instead NA programs or stay away from the Fund altogether? What dissuaded them? Was the level of access and selection into EA evenhanded?

- How were access levels determined in EA cases? What was the role of economic analysis and the role of political factors in making the determination? Did the Fund exposure play a role in the approval of successor arrangements and access decisions?

Evenhandedness of Selection into EA

20.   **A fundamental question for the evaluation is whether members in need received EA in an evenhanded manner.** Even taking into account that BOP needs involve country-specific factors, there are questions on evenhandedness regarding selection into EA. Mainly, several countries with exceptional BOP needs appear to have received NA instead of EA programs. However, further analysis of evenhandedness is complicated by a lack of information at individual country level on which countries expressed interest in an EA program but got NA or no program. This paper assesses evenhandedness by cross-country empirical analysis presented in Annex I.

Evenhandedness: Factors Affecting Selection into EA versus NA Programs

21.   **Macroeconomic variables, global shocks, country characteristics, members' past IMF exposure, and banking crises significantly affect selection into IMF programs.** Table AI.2 in Annex I presents the estimation results, where benchmark model I (BM I) (Column 1) is the benchmark regression for selection into IMF-supported programs underpinning the analysis in this section.

22.   **Compared to no-program episodes, program countries tend to have significant macroeconomic vulnerabilities prior to program approval**, evident in lower reserve coverage, net capital outflows (net portfolio and other investment flows), and higher levels of exchange market pressures, fiscal deficits, and public external debt. The exchange rate regime (ERR) plays an important role: A given level of reserve coverage (in percent of GDP) provides more protection under a flexible ERR than under a fixed or intermediate ERR. Reflecting the macro-financial vulnerabilities, a Fund-supported program is more likely after a banking crisis.

23.   **Country characteristics matter and have persistent effects on the likelihood of programs.** First, the econometric methodology controls indirectly for country-specific factors, such as institutional quality (Annex I).[6] The results show that country-specific sample average of the current account balance to GDP is correlated with the unobserved country effects and has a significantly negative impact on the likelihood of a program. In other words, persistently high current account deficits over the sample period raise the likelihood of program participation, likely (indirectly) capturing the country-specific factors such as exposure to shocks and institutional quality (recurrent policy slippages leading to persistently high current account deficits). Second, countries with lower real GDP per capita and smaller relative economic size (measured by their share in world GDP) are significantly more likely to request IMF financing. Finally, the impact of the euro area membership after the permanent European firewall was established is significantly negative.[7]

24.   **Empirical estimates show that adverse global shocks, as measured by global growth, lead to more IMF arrangements.** Conversely, a favorable global environment may shield countries with weaker policy fundamentals from requesting IMF financing. Tail shocks to global growth may amplify existing vulnerabilities, increasing the demand for Fund arrangements.

25.   **The size of a member's past IMF exposure significantly increases the likelihood of a successor program.** The IMF-specific variables, previous IMF engagement, and GRA credit outstanding as a share of the IMF's cumulative access limit (CAL) are highly significant, capturing both repeated use and the impact of previous large IMF exposure in triggering EA in new requests. The member's quota relative to its economic size (as measured by lagged GDP) is not a significant determinant of selection into programs but it is likely to matter for the access level. Notably, some prominent political variables, the UNSC membership and elections (the lagged and one-year-ahead executive or legislative elections), are not significant for selection into either EA or NA arrangements.

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[6] The econometric methodology controls for time-invariant unobserved country effects and the correlation between the covariates and the unobserved country effects by using the Chamberlain's correlated random effects estimator (Annex I).

[7] The ESM (European Stability Mechanism) was established on September 27, 2012, as a permanent firewall for the eurozone, to safeguard and provide instant access to financial assistance programs for member states of the eurozone in financial difficulty, with a maximum lending capacity of €500 billion. It has replaced two earlier temporary EU funding programs: the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM).

Evenhandedness: A Different Model for EA?

26.   **When separate models are estimated for EA and NA, notable differences in the factors affecting IMF decisions on selection into an EA versus a NA program emerge.** First, for EA programs, current account balance, global conditions (as measured by the Chicago Board of Options Exchange (CBOE) Market Volatility Index (VIX)), and the gross public debt of general government turn highly significant (the latter with a negative sign) while the global GDP growth, capital flow variables, and external public debt drop out of the model. The negative sign for gross public debt makes sense given the more rigorous debt sustainability requirements for EA programs (EAC2). Second, the impacts of three variables—fiscal balance, the GRA credit outstanding as a share of CAL, and banking crises— are amplified while the impact of the reserve coverage is attenuated and barely significant (with no interaction with the ERR). The member's quota relative to its economic size remains not significant in the selection model for EA.

27.   **Country characteristics have a significantly different impact on selection into EA versus NA programs**. In BM II (Column 2 in Annex I Table AI.2), the real GDP per capita has a still significant, but lower, effect while the relative economic size becomes insignificant. This finding has important implications for evenhandedness as it shows that, other things being equal, countries with lower income per capita and a smaller relative economic size are less likely to get a program with EA rather than NA (Columns 2, 4, and 5 in Annex I Table AI.2). The finding on the relative economic size is directly linked to evenhandedness and may even be contrary to the original intent of the policy. IMF (2002b) reported that many EDs were against establishing a formal criterion relating to contagion or potential systemic effects as "such a criterion could create a bias toward higher access for larger members, which could not be reconciled with the principle of uniformity of treatment." For the finding on income per capita, some staff noted that it could be capturing institutional quality assessments under EAC4, as higher income countries may be more likely to pass the EAC4 bar for institutional capacity to implement the program. As noted above, the econometric methodology does control indirectly for country-specific factors, like institutions, separately from income. Regardless, even if there is some conflation of effects, the bias toward richer countries needs to be reconciled with the objective of the policy regarding uniformity of treatment. It is, therefore, warranted to consider whether the de facto bias away from poorer members is an intended or an unintended consequence of the EAP and whether more transparency is needed for NA cases considered for EA but did not meet one or more EAC.

28.   **Banking crises and past IMF exposure also had a more prominent impact on selection into EA.** A counterfactual analysis shows that four EA programs were pushed above the threshold probability owing to their past IMF exposure (Türkiye 2005, Uruguay 2005, Ukraine 2010, and Argentina 2022). Notably, another counterfactual analysis, (setting dummy variable for the eurozone after the European Stability Mechanism (ESM) to zero) suggests that the eurozone firewall was quite effective in shielding Greece and Portugal from needing further IMF financing.

### *Evenhandedness: Exceptional BOP Pressures*

29.   **On average, BOP pressures were more pronounced in EA programs than in NA and no-program episodes,** (Figure 1, blue bars). While the BOP vulnerabilities were somewhat lower in no-program episodes vis-à-vis NA programs, a significantly more benign global environment for the former was the key factor that shielded similarly vulnerable countries from requesting Fund financing (Figure 1, orange bars). Banking crises further increased the likelihood of, especially EA, programs as 10 out of 32 EA programs were preceded by banking crises, as opposed to 4 out of 63 NA programs and 46 out of 1129 no-program episodes (Figure 1, purple bars). Finally, the size of the past IMF exposure amplified the likelihood of EA programs while having a relatively smaller impact on NA programs (Figure 1, light green bars). NA program countries tended to have persistently higher current account deficits (gray bars, Figure 1A, and lower GDP per capita and relative economic size (dark green bars, Figure 1A) compared to EA programs. After the ESM was established, only one euro area member, Cyprus, had a program with NA.

30.   **Nevertheless, the large variation in BOP pressures within EA programs invites further scrutiny.** An assessment of EA programs by each quartile of the BPI is as follows:

- *Top quartile (Table 1, red panel).* The seven programs that experienced the highest levels of BOP pressures are well-known crisis programs, six of which were also preceded by banking crises. All but Greece's 2012 program experienced a combination of significant exchange market pressures, capital flight, and low reserves. For two fast-unfolding capital account crises in Iceland and Ireland, with programs approved in November or December, the true extent of vulnerabilities was revealed in year t+1, as measured by the BPI z-scores of 3.52 and 3.23, respectively (z statistics of the standard normal distribution). The cumulative z-scores combining the BOP pressures, global shocks, banking crises, and fiscal deficits shot up from 0.9 to 4.59 in 2009 for Iceland and from 3.1 to 4.76 in 2011 for Ireland, the highest among the EA programs. While Ukraine, Türkiye, and Iceland had a relatively low public external debt, debt levels in others were either the most significant component of the BPI (both programs with Greece) or made a substantial contribution. As for other covariates affecting the likelihood of programs, four—both Greece programs, Ireland, and Türkiye, had very high budget deficits exceeding the 5th (10th) percentile of the full sample (all programs). For all but one, the predicted probabilities for a program from the full model are far above the upper threshold probability. The Global Financial Crisis (GFC) fully exposed the underlying vulnerabilities of the Icelandic economy in 2009: the predicted probability (excluding the IMF exposure) skyrocketed from 0.073 in 2008 to 0.99 in 2009, owing to a full-blown banking crisis and accelerating capital flight, which required government intervention along with a sharp increase in fiscal deficit and public external debt.

Figure 1. The Estimated Impact of Covariates on Selection into EA Programs

A. Predicted Probabilities: Full Model versus the Counterfactual Impacts of Components
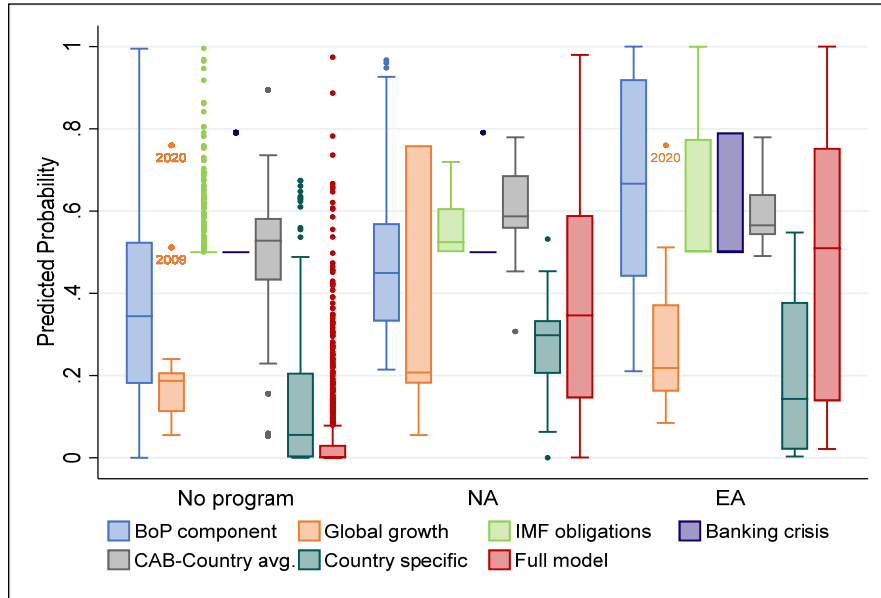
B. Cumulative z-scores: BOP Pressures, Global Growth, Banking Crises, and IMF Obligations
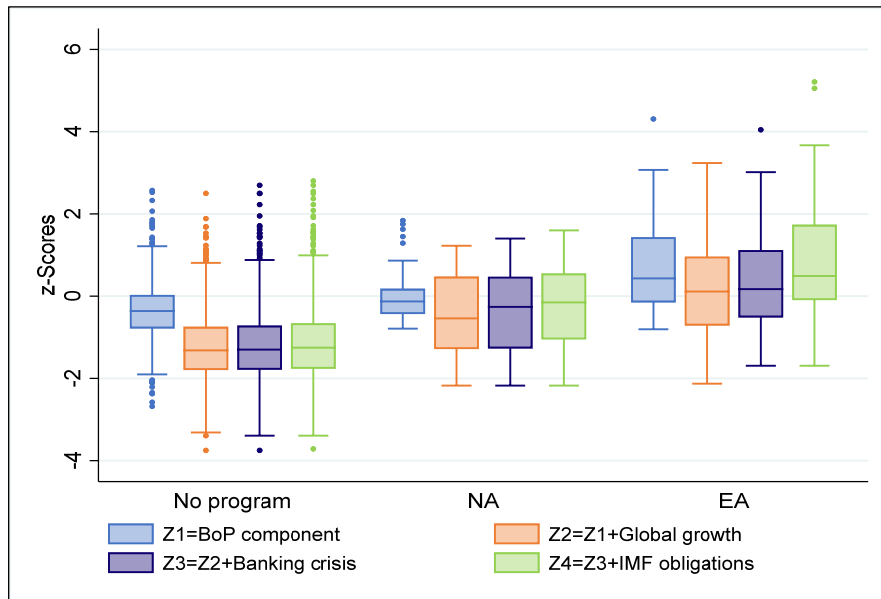
Source: Author's calculations.

Note: The predicted probabilities and the z-scores of the standard normal distribution for components are derived from BM I (Annex I). Whiskers represent the highest (lowest) observation within 1.5 times of the IQR from the 3rd (1st) quartile of the distribution. Markers show the observations falling outside of the whiskers. Panel (b) excludes z-scores below -4.

- *Third quartile (Table 1, orange panel).* These programs were approved during a crisis or escalated quickly to a crisis after approval. Uruguay's 2002 and Argentina's 2018 programs took a worse turn just a few months into the program. Amidst acute currency crises, the IMF augmented their access—and switched from a precautionary to a drawing arrangement in Argentina. Were the Exchange Market Pressure Index (EMPI) for the month prior to the augmentation to be taken, both programs would be in the top quartile with z-scores of 3.06 and 2.51, respectively. Banking crises in Portugal and Mongolia raised the predicted probability of a program, combined with a very high fiscal deficit for the former and an adverse global environment amplifying vulnerabilities for the latter.

- *Second quartile (Table 1, yellow panel).* This group includes five GFC programs with comparatively moderate BOP pressures. The global tail shock as well as substantial fiscal imbalances in four cases (Belarus—very high, as well as Hungary, Romania, and Serbia) increased the predicted probability of a program. For Latvia's and Hungary's end-2008 programs, a banking turmoil amplified the program probability in 2009. Notably, Serbia's 2009 program, with the lowest BOP pressures in this group, was precautionary at approval. The remaining two cases, Brazil (2002) and Uruguay (2005), were successor programs approved under benign global conditions, the former with moderate and the latter with low BOP pressures. For both, the large IMF exposure increased raised the likelihood of a program. As a testament to their benign initial conditions, both Brazil and Uruguay did not fully draw down the approved access, treated the rest of their programs as precautionary, and repaid the IMF early.

- *First quartile (Table 1, green panel).* North Macedonia's arrangement was precautionary at approval. Ukraine (2010) and Türkiye (2005) were primarily caused by the past IMF exposure. While Egypt's 2020 Rapid Financing Instrument (RFI) and SBA package was in response to the COVID-19 pandemic, its past near-EA exposure pushed both arrangements into the EA territory. For two GFC programs with Ukraine and Georgia, both approved towards the end of 2008, high BOP pressures showed up in 2009, for Ukraine, comparable to those in the third quartile. Jordan's 2012 program had the lowest BOP pressures among the EA programs: Despite modest exchange market pressures, very high reserve buffers, among the strongest in the sample, combined with low external public debt, sharply reduced the BPI. Jordan sought a program to address its fiscal vulnerabilities, resulting in very high twin fiscal and current account deficits.

31. **Notably, several NA programs experienced BOP pressures comparable to those in EA programs, which raises questions on evenhandedness** (Table 2). Eleven out of the 63 NA programs experienced BOP pressures higher than the median BPI for EA programs, five of which having BPIs above those of 24 EA programs. Furthermore, an additional 21 NA programs were above the first quartile of the BPI for EA programs. As a testament to the robustness of the empirical methodology in identifying the NA programs with exceptional BOP pressures, of the 11 programs, 3 (Mongolia, Angola, and Ecuador 2019) hit both the annual and cumulative access limits (AAL and CAL, respectively), 2 (Cyprus and Egypt 2016) were only slightly below both limits and another 2 were at the AAL (Dominican Republic and Jamaica).

Table 1. EA Programs: Balance of Payments Pressure Index and z-scores						
Country	Approval Year (t)	Approval Date	BPI (t)	z-score (t)	BPI (t+1)	z-score (t+1)
Argentina	2003	1/24/2003	1.000	4.31		
Ukraine	2015	3/11/2015	0.999	3.07		
Ireland	2010	12/16/2010	0.999	2.98	1.000	3.52
Greece	2010	5/9/2010	0.990	2.32		
Türkiye	2002	2/4/2002	0.988	2.24		
Iceland	2008	11/19/2008	0.974	1.94	0.999	3.23
Greece	2012	3/15/2012	0.970	1.88		
Argentina	2018	6/20/2018	0.866	1.11		
Mongolia	2009	4/1/2009	0.827	0.94		
Portugal	2011	5/20/2011	0.798	0.84		
Pakistan	2008	11/24/2008	0.797	0.83	0.769	0.74
Ukraine	2014	4/30/2014	0.729	0.61		
Uruguay	2002	4/1/2002	0.706	0.54		
Sri Lanka	2009	7/24/2009	0.687	0.49		
Ecuador	2020	1/5/2020	0.646	0.37		
Brazil	2002	9/6/2002	0.631	0.33		
Hungary	2008	11/6/2008	0.605	0.27	0.446	-0.14
Romania	2009	5/4/2009	0.557	0.14		
Belarus	2009	11/12/2009	0.556	0.14		
Armenia	2009	3/6/2009	0.467	-0.08		
Uruguay	2005	6/8/2005	0.456	-0.11		
Latvia	2008	12/23/2008	0.444	-0.14	0.484	-0.04
Serbia	2009	1/16/2009	0.437	-0.16		
Egypt	2020	5/11/2020	0.409	-0.23		
Türkiye	2005	5/11/2005	0.402	-0.25		
Georgia	2008	9/15/2008	0.374	-0.32		
Ukraine	2008	11/5/2008	0.374	-0.32	0.697	0.52
North Macedonia[1]	2011	1/19/2011	0.307	-0.50		
Ukraine	2010	7/28/2010	0.226	-0.75		
Jordan	2012	8/3/2012	0.210	-0.80		

Source: Author's calculations.
Note: The BOP pressure index (BPI) is a composite indicator derived from BM I as a counterfactual predicted probability arising solely from the BOP variables (Annex I). Red, orange, yellow, and green blocks correspond to each quartile of the BPI. The BPI and z-scores are also reported at t+1 for programs approved in November or December. The results for two EA programs approved in 2022 were not presented as these programs are ongoing.
[1] Approved as a precautionary arrangement but drawn down during the first year of the program.

32.   **In four NA programs, despite exceptional BOP needs, large official financing or debt restructuring reduced the external financing gap, keeping access levels below the limits.** For the Cyprus 2013 and Pakistan 2019 programs, exceptionally large financing packages from the official creditors dwarfed the Fund financing. The ESM pledged ten times, and disbursed six times, the amount of IMF financing to Cyprus. Pakistan's official creditors pledged six-times the amount of access. Four programs had debt restructuring: Ecuador's 2003 SBA was a pre-requisite for a Paris Club debt rescheduling in June 2003. Jamaica's 2013 program had a prior action on completing a domestic debt exchange to reduce public debt by at least 8.5 percent of GDP. Pakistan participated in the Debt Service Suspension Initiative (DSSI) in 2020. Cyprus' program had a structural benchmark to extend the maturity of domestic debt through a voluntary debt exchange and rollover of recapitalization bonds.

Table 2. Exceptional Balance of Payments Pressures in Programs with NA							
				Relative to the BPI of EA programs		Access (in % of quota)	
Country	Program	Original Duration (months)	Debt Operation	Rank[1]	# of EA programs below	Approved AA(FY)/CA; IMF credit[2]	Access Limits AAL/CAL[2]
Dominican Republic	2003 SBA	24	No	80	25	100/200; 2	100/300
Mongolia	2017 EFF	36	No	79	25	145/435; 0	145/435
Angola	2018 EFF	36	No	77	24	145/434; 0	145/435
Cyprus	2013 EFF	36	Yes	76	24	188/563; 0	200/600
Egypt	2016 EFF	36	No	75	24	141/422; 0	145/435
Jamaica	2013 EFF	48	Yes	65	21	81/225; 198	200/600
Pakistan	2019 EFF	39	No	61	19	51/246; 200	145/435
Jamaica	2010 SBA	27	Yes	59	19	198/300; 151	200/600
Ecuador	2003 SBA	13	Yes	54	17	20/50; 75	100/300
Pakistan	2020 RFI	39	Yes	54	17	100; 232	145/435
Ecuador	2019 EFF	36	No	52	17	145/435; 37	145/435

Source: Author's calculations.
Note: The BOP pressure index (BPI) is a composite indicator derived from BM I as a counterfactual predicted probability arising solely from the BOP variables (Annex I). Only NA programs with a BPI exceeding the median BPI of EA programs are included to identify NA cases with exceptional BOP needs conservatively and robustly.
[1] The percentile rank of the BPI for the NA program within those of the 32 EA programs.
[2] AA(FY)/CA, IMF credit, and AAL/CAL stand for annual access (first year)/cumulative access, GRA credit outstanding before approval, and annual and cumulative access limits at the time of approval.

33.   **For two borderline NA programs, qualitative evidence suggests that either the authorities preferred EA or review departments had opposing views on EA versus NA.**

- *Egypt 2016 EFF*. The IEO evaluation of *Growth and Adjustment in IMF-supported Programs* found that "*the [Egyptian] authorities would have preferred higher access under the EFF arrangement. They noted that access under normal limits provided in the arrangement … created problems and was not commensurable with the strength of the program*", also noting staff's response that "*access was appropriately tailored to country circumstances, given the sustainability concerns linked to Egypt's high public debt*" (IEO, 2021, pages 50–51). As it happens, Egypt subsequently did have EA programs despite similarly high debt burdens.

- *Ecuador 2019 EFF*. Alfaro and de Las Casas (2024) report conflicting views among departments regarding the appropriate level of access. Judging the debt to be sustainable, views differed on the case for EA given Ecuador's need for reserve buffers versus the case for NA given arguments that BOP needs could be covered within access limits and that program risk were high. The latter view prevailed.

34.   **While most stakeholders perceived EAC1 as objectively quantifiable, empirical evidence suggests its application in borderline EA decisions merit further scrutiny.** The evaluation empirically identified several NA programs with BOP needs comparable to those in EA programs. This finding raises questions on evenhandedness but does not by itself imply lack of it as access decisions involve a number of considerations. Area departments do not have a list of countries that expressed interest in but did not receive EA programs. This lack of information

poses a challenge to evaluating evenhandedness in this respect. The empirical results show that, other things equal, countries with lower income per capita and smaller relative economic size (measured by their share in World GDP) are less likely to get a program with EA rather than NA. EAC1 lacks cross-country analytical tools that could provide a benchmark to identify "exceptional" BOP needs, similar to their use in this paper. Ex ante use of such analytical tools could further facilitate evenhandedness by systematically identifying cases with "exceptional" BOP needs for higher scrutiny.

III.   DESIGN AND IMPLEMENTATION OF EAC4

A.   Design

35.   **According to the IMF's conditionality guidelines, a successful program assists members to resolve their BOP problems and achieve medium-term external viability while fostering sustainable economic growth and safeguarding Fund resources**. Program design and IMF financing are the key instruments to ensure program success. Towards this end, conditionality encompasses the following underlying principles: National ownership and capacity to implement programs, parsimony in conditions critical for achieving program goals, tailoring the programs to member circumstances, coordination with other multilaterals, and clarity in what constitutes program conditions.

36.   **The EAC4 "burden of proof" is higher for EA programs.** The main differences boil down to two: EA programs should have "a reasonably strong prospect of success" and are subject to "higher scrutiny" than NA programs through a dedicated discussion of EAC4. What this translates into in substance when implementing the criterion is ambiguous owing to the lack of both a framework to assess EAC4 and of clarity on whether and how the prospects for program success should be higher for EA programs. During the evaluation period, all programs, EA or NA, were required to assess ownership and implementation risks for key measures necessary to improve prospects for program success (IMF, 2002c and 2014).

37.   **According to several interviewees, both the NA and EA programs must meet EAC4.** Some noted that what is different for EA relative to NA is the "higher evidentiary standard" for EA, which is reflected in the fact that for EA programs—unlike for NA programs—the prospects for program success, including the authorities' political and institutional capacity to implement the necessary adjustment, needs to be justified explicitly in the program documents. One noted that for EAC4 to have any value, EA requirements should be higher than NA. Some options for revising EAC4 along this line would be to rephrase EAC4 to raise the bar commensurate with the risk the Fund is undertaking or to argue that the prospects for success should be higher in EA than NA without changing the language.

38.   **In 2024 (beyond the evaluation period), the IMF took important steps to further strengthen the prospects of program success and implementation for all programs.** The revisions to the Operational Guidance Note on Program Design and Conditionality (henceforth,

OGN) (IMF, 2024) represented a notable upgrade for EAC4. The OGN requires the use of the two SRDSF realism tools and provides additional guidance on assessments of institutional and political capacity. While the programs in the evaluation sample took place before the OGN was published, it is, nevertheless, important to take stock of the current policy to inform the evaluation lessons and findings and identify remaining gaps.

39. **The additional guidance on institutional and political capacity requires consideration of the following issues:**

- *The strength of the authorities' mandate for action/reform.* A majority government or a fragile cross-party coalition; Any strong vested interests against key reforms; The role of societal perceptions of fairness with respect to economic conditions, policies, and reforms.

- *The modalities of reform and the need for coordination across different parts and levels of government.* Does implementation of key measures hinge on legislative approval or actions by lower levels of government?

- *The ambition of adjustment and reform.* How does the proposed adjustment compare to historical adjustment episodes in the country and in peer countries? Have the same reforms been attempted before? What is the nature and strength of likely opposition, including susceptibility to legal challenge and reversal?

- *The timing of proposed adjustment and reforms in terms of the political and economic cycles.* The risks for implementation tend to increase as reforms become more backloaded. Reforms are more likely to be implemented in the first year of a program while recognizing that flexibility on timing and pace of implementation is limited in crisis situations.

- *The quality of communication.* Strong communication of program policies that builds a broad consensus can increase political capacity for implementation. Lingering uncertainty about the potential costs and benefits across different parts of the population can undermine implementation.

40. **These recent revisions to the operational guidance strengthened the basis for assessing EAC.** At the same time, they suggest a similar process for EA and NA cases. First, the OGN requires the use of realism tools under the SRDSF to assess the realism of the planned fiscal adjustment and the consistency between fiscal adjustment and growth assumptions under a range of plausible fiscal multipliers. This is a much welcome step in the right direction as the evaluation findings indicated a gap in integrating these tools with the macro-framework, thereby missing an opportunity to improve the economic feasibility of programs. Differently from NA programs, EAC4 could be substantiated by requiring an analysis of the full set of the SRDSF realism tools. Second, OGN provided additional guidance on analyzing institutional and political capacity. Although this is a useful step, the guidance still relies heavily on staff judgment. Staff could strengthen the analytical work on the impact of political risks on program implementation as well as on how to mitigate such risks by exploring the role of the policy design in improving the political feasibility of programs.

41.   **Several interviewees considered EAC4 to be the most important and overarching EA criterion, ensuring (i) an adjustment path that would work and (ii) capacity to implement.** They noted that in order for the program to be successful, as required by EAC4, the debt needs to be sustainable and market access restored. Conversely, they also highlighted that EAC4 was beyond the capacity to implement, *it ensured an adjustment path that would work*: if EAC4 is not met, it is impossible to meet EAC2 and EAC3.

42.   **However, a general sense among interviewees was that staff struggled with the lack of a concrete framework to assess EAC4.** Many interviewees considered the lack of a framework for EAC4 assessments as a key problem for the design of the policy. Overall, interviewees emphasized that in order to make EAC4 work, guidelines would need to be developed.

43.   **A few interviewees, however, expressed the view that EAC4, as currently designed and practiced, was not very useful.** Gaps included that it was not quantifiable and monitorable, was not guided by a framework, and did not help staff with traction where they sought political assurance in order to satisfy EAC4. A view was expressed that the Fund could do away with this criterion since it was mostly a constraint imposed on the Fund without having an impact on what the Fund can ask the authorities to do to improve their economic situation.

44.   **A few interviewees considered how to define/measure program success in EA cases as a key question for EAC4.** They believed that the number of completed reviews was not always a good measure of program success. In some cases, an EAP stabilizing a crisis situation after two reviews could count as a success while in others, if the crisis erupts again after a few months two reviews is too short for a proper assessment.

45.   **Most interviewees thought on the ground presence gave staff a good sense of the authorities' political and institutional capacity to deliver the required adjustment.** In that sense, they considered IMF resident representatives as invaluable. At other IFIs, interviewees noted their practice of commissioning external political scientists for selected country reports and opined that a large field presence was most helpful for good political economy analysis. According to staff interviewees what gets in the way of using this on the ground knowledge in EAC4 assessments is articulating staff's views on political economy constraints in a robust way that will affect the Board decisions in the absence of a clear framework to substantiate such considerations in EAC4 and in anticipation of objections from the country authorities and the Board to staff's judgments on political issues. While staff was well aware of these issues, they were constrained to raise them in the reports and with the Board as the Board was skeptical about staff getting into political issues. Therefore, interviewees opined that substantiating EAC4 would give staff a stronger basis for defending its position. As for institutional capacity, in some cases the distinction between the institutional and political capacity could be blurred as the politicians override the technical work already done to halt politically unpalatable measures.

B. Implementation

46.   **This section covers the implementation of EAC4 over the evaluation period, focusing on the following questions:**

- How were ex ante judgments made about prospects for program success, including institutional and political capacity? Were they clear, transparent, and evenhanded?

- How do ex ante assessments compare to ex-post assessments of program success? Where outcomes diverged from expectations, what were the main reasons (e.g., program design, implementation, exogenous circumstances)

- Once EAC4 was deemed to be met at program approval/review, how easy or difficult was it to change the assessment in subsequent reviews when macroeconomic circumstances and prospects for program success changed? If so, what were the drivers of this bias? Conversely, what factors led to a change in the assessment? How were such cases handled (more adjustment and/or more financing from others, including debt restructuring)?

Ex ante Assessments of EAC4

47.   **Desk review indicated that staff's ex-ante judgments about EAC4 were frequently justified by the following arguments:**

- *Track records of implementation under the previous IMF programs.* Staff used strong performance under previous programs as a justification for EAC4, such as "strong program ownership and track record of implementation under the 2016–19 EFF" in Egypt's 2020 SBA, and "Pakistan implemented successfully Fund-supported programs during 2000/01–2004/05" in Pakistan's 2008 SBA. When considering EA cases with weak track records of implementation, staff did a combination of (i) giving the new government the benefit of the doubt, e.g., "new government offers an opportunity for a decisive break with the past" in Ukraine's 2014 SBA; and (ii) requesting prior actions (PAs) (Greece's 2012 EFF, Ukraine's 2014 SBA, and Ecuador's 2020 EFF). Romania's track record prior to 2013 SBA was not so clear cut. While noting that political instability took a toll on Romania's previous program (which was completed, albeit with delayed/combined reviews and stalled structural reforms), staff still assessed that "Romania's adherence to the recent Fund-supported program has been good overall…The authorities' performance during the recent program lends confidence in their institutional and political capacity to continue to implement sound policies."

- *Prior actions.* As mentioned above, EAC4 assessments also referred to PAs, measures that must be adopted prior to approval of an arrangement or completion of a review, to test ownership and ensure that certain critical measures are implemented upfront.

- *Commitment to program policies at the highest political level and Political assurances*. In Ecuador, staff confirmed such commitments by the president signing the Letter of Intent (LOI). Program documents noted "a new program has political backing within the coalition, which has a comfortable majority, and from the President" in Romania's 2013 SBA and "Latvia's adjustment plan is supported at the highest political level and the core elements of the program enjoy broad political support" in Latvia's 2008 SBA. Especially in EA cases with fragmented politics and upcoming elections, staff requested political assurances from the opposition for the program objectives as a risk mitigating safeguard. Ecuador's 2020 EFF was very upfront on that saying, "Broad support from across the political spectrum for the objectives of the program, e.g., through a parliamentary statement ahead of program approval, would be a critical test of ownership and political capacity." Staff also noted "while receiving adequate assurances are normally required under any size of Fund arrangement ahead of elections, these become ever-more important given the high risks entailed by EA." In Greece's 2012 EFF, formal assurances were requested: "In view of the forthcoming elections, the assurance letters provided by the two main political parties in the coalition government and the broad parliamentary endorsement of the policies contained in the MEFP give further confidence in policy continuity during the program period." In El Salvador's 2009 SBA both leading presidential candidates endorsed publicly the main elements of the SBA, including maintaining macroeconomic stability, fiscal sustainability, and dollarization.

- *Whether the government has a majority in parliament.* If so, staff considered it positively in EAC4 assessments as in Ukraine's 2014 SBA "The government (which has strong backing in parliament) has already indicated it is prepared to undertake several important policy measures upfront" and "the threat to Ukraine's territorial integrity has so far united parliament and may finally galvanize the support needed to overcome the resistance of vested interests to reform." Conversely, where the government lacked majority staff raised this as a concern: "the lack of majority at the National Assembly will make it difficult for the government to legislate changes" in Ecuador and "there is a concern linked to the government's ability to build support for possible policy measures that need to be passed by Congress (given that the governing coalition has a minority in both houses of Congress)" in Argentina.

- *Institutional capacity*. Assessments were based mostly on staff's judgment, referring also to institution building through ongoing IMF CD support to address the gaps (Egypt, Ecuador). Ecuador's 2020 EFF underscored that "Improving institutional quality will be an important objective of the envisaged program." In Argentina's 2018 SBA, staff was confident about the institutional capacity: "the administration's institutional capacity and technical competence to be strong and fully able to deliver the core elements of the expected reform program."

48.   **Notably, the language in some EAC4 assessments was clearly at odds with staff's endorsement that the criterion was met.** At the combined first and second review of Greece's 2012 EFF, staff pointed to very high implementation risks: "even with these assurances and undertakings of the authorities, it should be stressed that program *implementation risks are likely to remain very high*. The necessary level of ambition embedded in the program will continue to test political and social resolve, and even with political resolve, the breadth of the reform agenda may test the authorities' administrative capacity." In Pakistan's 2008 SBA, staff noted "while there are reasonable prospects for success if the proposed policies are implemented, *the risks to the program remain very high*, as implementation can be affected by the difficult political, security, and economic conditions." Mongolia's 2009 SBA noted "significant risks to the program," while in the EPE's assessment, EAC4 was the most uncertain and debatable criteria as none of Mongolia's previous four programs were successfully completed, with the last going off-track after the second review.

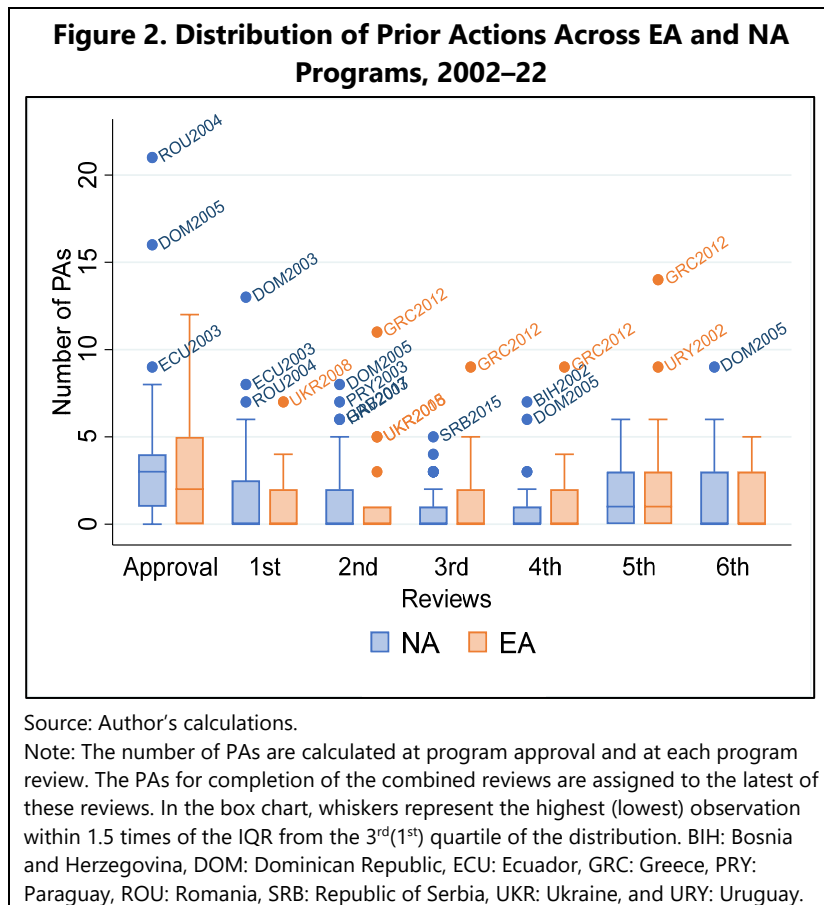49.   **Three areas were lacking from the EAC4 assessments:**

- *Assessment of past implementation record on specific structural reforms.* The depth of structural reforms is a crucial factor affecting the prospects for program implementation. In several EA cases, reform attempts, both with and without programs, repeatedly failed in specific areas, such as a durable transition to a flexible exchange rate regime in Egypt and VAT reform in Pakistan. EAC4 assessments could have benefited from zooming into these areas to identify lessons learned and obstacles to implementation, informed by a stakeholder analysis, to design prioritized, realistic but sufficiently ambitious, and implementable reforms. Not in EAC4 assessments but elsewhere staff occasionally but candidly recognized challenges. For instance, the staff report for Romania's 2013 EFF noted that as the structural reform measures deepen, vested interests will test the authorities' resolve.

- *A critical evaluation of the implementation of current programs in EAC4 assessments during program reviews, with the notable positive exception of Ecuador's 2020 EFF.* Especially in early EA cases, but also more broadly, the EAC4 assessments were very concise and changed little from approval through program reviews. Ecuador's 2020 EFF provided a good example of evaluating the implementation record against the unfolding political challenges. In the end, slippages in implementing a key subsidy reform did not stop the program but were well reflected in EAC4 assessments, including in more PAs to test ownership. At the sixth review, staff noted "on balance, the strong macroeconomic policy management to date, including the progress toward reducing oil dependency and avoiding procyclicality, completion of five reviews with significant reforms and macroeconomic improvements already attained, commitment to strong prior actions all provide a reasonably strong prospect of success for the Fund-supported program."

- *Assessment of the adequacy of social protection in the context of enhancing political feasibility.* Protecting the most vulnerable from the adverse effects of macroeconomic adjustment on poverty and inequality is critical not the least to ensure a broad political support for the programs.

Evenhandedness of the Implementation of EAC4 Assessments

50.   **It is hard to assess the evenhandedness of the implementation of EAC4 owing to the lack of a concrete framework, thereby, purely judgment-based nature of such assessments.** EA programs sometimes have been stopped because EAC4 was no longer met but in practice the bar seems to be very high to make this declaration. The evaluation, therefore, focuses on two aspects of EAC4 assessments that are more suitable to a cross-country comparison: (i) the use of PAs across evaluations; and (ii) the implementation of the policy on political assurances.

51.   **The number of PAs did not differ much across NA and EA programs and there were clear outliers in both groups** (Figure 2). The median number of PAs for NA and EA programs decreased from 3 and 2, respectively, at approval, to zero in subsequent reviews, for both groups. Three-quarters of all program approvals and reviews of EA programs had 2 or less PAs, marginally below the corresponding number of 3 or less PAs for NA programs. Greece's 2012 EFF, a clear outlier among EA programs owing to the conditions required by the European partners, illustrates that PAs alone could not be a panacea for successful program implementation. Staff used PAs quite parsimoniously in programs approved in 2016 or later, except for Ecuador's 2020 EFF. EA programs excluding Ecuador used 0–2 PAs at approval and later reviews, while the corresponding numbers for Ecuador ranged from five at approval to 2-5 PAs at subsequent reviews.

Figure 2. Distribution of Prior Actions Across EA and NA Programs, 2002–22

Source: Author's calculations.
Note: The number of PAs are calculated at program approval and at each program review. The PAs for completion of the combined reviews are assigned to the latest of these reviews. In the box chart, whiskers represent the highest (lowest) observation within 1.5 times of the IQR from the 3rd(1st) quartile of the distribution. BIH: Bosnia and Herzegovina, DOM: Dominican Republic, ECU: Ecuador, GRC: Greece, PRY: Paraguay, ROU: Romania, SRB: Republic of Serbia, UKR: Ukraine, and URY: Uruguay.

52.   **Given the higher risks involved in EA cases, it is legitimate to ask why PAs were not used more often, especially in cases with weak track records.** According to the IMF's guidelines on conditionality (OGN, IMF, 2024), in countries with weak track records of implementation PAs can help ensure that certain measures critical for the achievement of program goals are implemented upfront. They can also help to assess national ownership of program policies as well as institutional capacity for implementation.
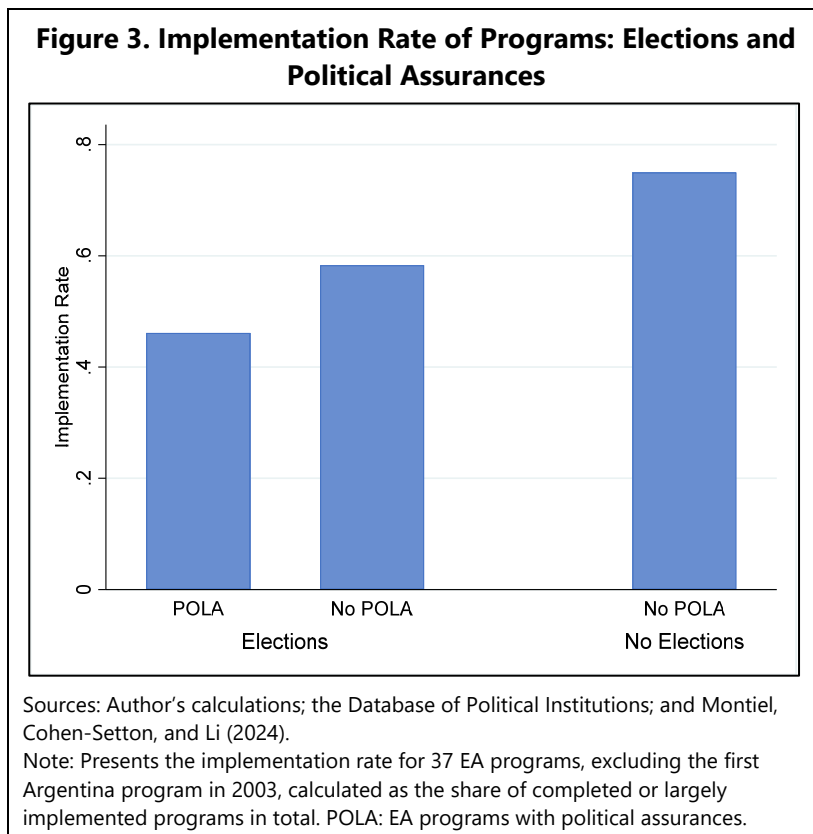
53.   **To assess the evenhandedness of the IMF's request for political assurances, the evaluation compared the treatment of EA cases with and without upcoming elections.** According to OGN, the approval or completion of a review of an upper credit tranche (UCT) arrangement must be based on, among other things, adequate safeguards for the use of Fund resources including the authorities' capacity to implement the proposed economic program. The guidelines note that there may arise cases where the government has limited ability to implement an agreed economic program due to lacking political support or where elections may lead to a shift in the government. In such cases the IMF Board may need assurances from key candidates that the economic program can be implemented in the event of a change of government during a Fund-supported program.

54.   **Evidence shows an uneven use of political assurances in EA programs with upcoming elections.** Two-thirds of the EA programs had elections during the program period (based on the program end dates at approval). As expected, staff did not request political assurances in programs with no elections, which indicates some deliberate use of the policy. However, staff obtained political assurances in only about half of 25 programs with upcoming elections (Table 3 and Annex II). Some staff noted that as political assurances are needed where elections may lead to a shift in government, in some of these cases, the incumbent governments might have had strong prospects for staying in power, eliminating the need for such assurances. However, this argument is problematic as it requires staff to predict the outcomes of elections, which is a politically inappropriate task for the Fund and not suited to staff's skill set. It may also complicate the monitoring of the evenhanded use of political assurances.

Table 3. Implementation Rates for IMF Programs with EA, 2002–22[1]			
	Completed *or* Largely Implemented	Off-track *or* Quickly Off-track	**Total**
Elections	**13**	**12**	**25**
Of which: Political assurances	6	7	13
No political assurances	7	5	12
No Elections	**9**	**3**	**12**
Of which: Political assurances	0	0	0
No political assurances	9	3	12
Total	**22**	**15**	**37**

Sources: Author's calculations; and Montiel, Cohen-Setton, and Li (2024).
Note: Montiel, Cohen-Setton, and Li (2024) classifies the implementation status of programs as completed, largely implemented, off-track, and quickly off-track.
[1] Includes only EA programs and excludes the first Argentina program in 2003.

55.   **Upcoming elections significantly hurt the implementation of EA programs, but political assurances did not seem to make any difference, casting doubt on their effectiveness** (Figure 3). Overall, 75 percent of the EA programs with no elections were completed or largely implemented. The same number dropped to only 52 percent for those with upcoming elections. In this group, program implementation rates with political assurances were broadly similar to, if not slightly worse, than those without political assurances. It is, nevertheless, worth noting that potential selection bias may be at play as well: staff might have requested political assurances in programs with a particularly challenging political environment and ownership issues, thus, more likely to perform poorly.

Figure 3. Implementation Rate of Programs: Elections and Political Assurances

Sources: Author's calculations; the Database of Political Institutions; and Montiel, Cohen-Setton, and Li (2024).
Note: Presents the implementation rate for 37 EA programs, excluding the first Argentina program in 2003, calculated as the share of completed or largely implemented programs in total. POLA: EA programs with political assurances.

56.   **Given the significant political cost incurred by the government to obtain political assurances, their net benefit is questionable.** The interviewees expressed mixed views on the usefulness of political assurances. According to one interviewee, the trade-off for political assurances is not right: On the one hand, generating a debate across political parties can be seen as a good thing, however, getting the signatures from the opposition parties opens everything up to negotiation, ending up with the government using its limited capital. A common thread is that the effectiveness and format of political assurances depends on country-specific circumstances and not on a one-size-fits all approach. Where common public statements are provided from across the political spectrum, they provide some assurance of the member's ownership of program policies. However, even then there may be a question about the scope of the statements (general versus specific to the program) and their durability. In some countries, it is simply

unrealistic to expect the opposition and the incumbent administration to make joint statements on particular policies, especially close to an election. In such cases, many felt that oral assurances from the leadership should suffice for the Fund. In all cases, it was felt important for the staff team to engage with a wide section of stakeholders, including not just political counterparts but also civil society, industry, opinion makers, and others in order to form an objective view of the member's political and institutional capacity to implement the required adjustment.

Ex ante versus Ex Post Assessments of Program Success

57.   **Despite the ex ante favorable assessments of the prospect of program success under EAC4, 46 percent of EA programs went off-track.[8]** Notably, the implementation rates were very similar for EA and NA programs. Consistent with the findings in *Growth and Adjustment in IMF-Supported Programs* (IEO, 2021), Montiel, Cohen-Setton, and Li (IEO, 2024) report an optimism bias in growth and fiscal projections, which is more pronounced in EA programs than in NA programs, resulting in a faster than projected correction in current account balance. Finally, judged by staff's own success metric used in the 2018 Review of Program Design and Conditionality (ROC), out of 23 EA programs (sample restricted by data availability), only 30 percent of the programs were fully successful, while 35 percent each were assessed as partially successful and unsuccessful, respectively.

58.   **Where outcomes diverged from expectations, what were the main reasons?** Montiel, Cohen-Setton, and Li (IEO, 2024) identify several problematic features in program design: (i) unrealistically high expected growth pay-off of pro-growth structural reforms that are not critical for short-term stabilization but may overburden implementation capacity; (ii) procyclical fiscal adjustment regardless of initial conditions; (iii) avoidance of debt restructuring, even when debt sustainability is perceived to require very large and costly fiscal adjustment; and (iv) underutilization of CFM and broader macroprudential policies.

59.   **Complementing the above findings, interviews conducted for this paper provided the following perspectives on the factors that affected program implementation and outcomes**:

- *Growth optimism*. Validating the arguments in Montiel, Cohen-Setton, and Li (2024), interviewees noted that structural reforms took time and could only have a medium-term impact on growth, thereby, cautioned that projecting growth impact too soon might be a factor behind growth optimism, contributing to "too little too late" debt restructurings.

- *Pace of adjustment*. Related to the above point, two interviewees thought that the requirement to eliminate the financing gap by the end of the program combined with the relatively short durations of IMF programs (at most four years, if an EFF) led to overambitious adjustment and optimistic baselines.

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[8] Program outcomes and success metrics are discussed extensively in Montiel, Cohen-Setton, and Li (2024).

- *Program duration.* Addressing deep structural problems typically required longer horizons than what the IMF programs were typically able to offer.

- *Exchange rate and the nominal anchor problem.* In several EA cases, the exchange rate was the Achilles heel as a sharp devaluation was followed by a run-away inflation and adverse balance sheet effects, undermining macro stability as well as political capacity. One of the views expressed was that, in hindsight, the nominal anchor didn't work in Argentina 2018 as inflation targeting was introduced at high inflation with no independent central bank and Argentina was a highly dollarized economy. Exchange rate was key, and it went very wrong. Exchange rate was way out even compared to the adverse scenario by the first review. Staff admittedly underestimated the exchange rate pass-through to inflation. The fear of losing the nominal anchor was also a critical factor behind Egypt's decades long fear of floating, which prevented a durable shift to a floating exchange rate regime under successive programs with the IMF.

- *External environment.* Some truly successful EA programs were also helped by a favorable external environment, besides good policies and good leadership for reforms (Türkiye, 2002). A few interviewees also called for an overhaul of the IMF's lending framework given the significant regime change in the IMF's operating environment owing to the increasing frequency and magnitude of shocks.

- *Timely debt restructuring.* Severe debt burdens are not easy to resolve solely through adjustment. Though not really publicized, Türkiye's very successful 2002 program did end up doing debt reprofiling and achieved a primary surplus of 6.5 percent of GDP.

- *Deep but implementable reforms.* According to the interviewees, the IMF needed to consider the political economy constraints to decide whether the first best option was implementable. If not, it should go with the second best.

- *On the ground presence.* Several interviewees emphasized the criticality of the IMF being on the ground through its resident representatives.

- *Experienced mission chiefs for crisis programs.* In high stake crisis programs, the Fund ensured that experience was there as the brand-new mission chiefs were at higher risk of not being able to read the political situation.

60.   **Many interviewees emphasized that lack of a concrete framework to assess EAC4 got in the way of its implementation.** One comment was that EAC4 was so fuzzy that the Fund did not even try to properly assess it, adding that it usually went with "this time is different." A similar sentiment was that the IMF always "gave the benefit of the doubt" to the authorities in EAC4 assessments. Referring to Ukraine's EA programs that collapsed by the first review, a view in the interviews was that equating a new leader with a new regime was wrong as Ukraine had deep political economy issues: the administrative state controlled the leadership. The Fund went ahead because major shareholders wanted to do it. A suggestion was that for some cases, the IMF should support only stabilization programs. Another suggestion was for the IMF to pay more attention to the assessment of country ownership.

61.   **Interviewees offered their views on how to substantiate a framework to assess EAC4 to ensure that (i) program is designed for high probability of success; and (ii) it has politically high probability for being implemented.** The views covered the following areas:

- *Using the realism tools in the DSA and the IPF models.* One of the interviewees commented that when the IMF introduced the realism tools in the 2011 revision to the Debt Sustainability Framework for Market Access Countries (MAC DSA), the intention was that they would be fully integrated with the macro-framework, i.e., treated as a part of it. However, staff treated them as a separate requirement only for the DSA. Others agreed that use of these tools in EAC4 assessments would ensure their integration and provide a clear framework to assess the realism of projections, especially for growth, the feasibility of fiscal adjustment, and the exchange rate pass-through to inflation.

- *Using the history of Fund engagement* both in program and in surveillance context.

- *Assessing past adherence to certain policy measures*, such as VAT reforms, central bank independence, subsidy reforms and exchange rate flexibility to evaluate their political feasibility and improve the design and communication aspects accordingly. Some also noted that economic crises might open a short window to implement previously failed but critical measures and saw merit in frontloading them, possibly as prior actions.

- *Using the reviews and the other standard tools more effectively*. The tools mentioned by interviewees included PAs and more backloaded phasing of access (to the extent possible, given the BOP need) to test ownership and using side letters for market-sensitive policy commitments, though very sparingly, as needed.

- *Paying attention to social protection.* Stakeholders praised Egypt's 2016 EFF, a near-EA program, for durably eliminating energy subsidies without a popular backlash thanks to skillfully using part of these resources to strengthen Egypt's social protection through direct cash transfers to the most vulnerable (highly popular Karama and Takaful schemes). This contrasted with the popular backlash on the streets of Ecuador that led to the reversal of its key subsidy reform. Some staff observed that structural reforms to strengthen social protection took time while the impact of austerity measures were immediate. They considered the timely implementation of such reforms critical for program success. Overall, effective social protection is good policy to maintain the political support for reforms while the IMF needs to prepare the ground well ahead of crises through surveillance and close collaboration with partners, particularly the World Bank.

- *Assessing the country, not the government, ownership.* Many of the serious problems a country is facing could not be fixed in one election cycle, rather it takes several election cycles. So, the IMF should not overemphasize the current government, but assess the country's ownership for the reforms.[9]

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[9] IMF (2002) notes that judgments on the depth and breadth of national ownership of a proposed Fund-supported program are inherently subjective and difficult.

- *Program duration.* According to several interviewees, the duration and type of EA programs should be well tailored to the nature of the BOP need. Specifically, countries experiencing deep structural BOP problems could be expected to have a four-year EFF.

- *Knowing when to pull the plug.* Several interviewees thought that it was important to find some ways to recognize when to (and the need to) leave, but would recommend just constraining the room for maneuver, not eliminating it.

IV. CONCLUSIONS

62.   **This paper identified several NA programs with BOP needs comparable to those in EA programs, with access levels either at or only slightly below the limits.** This finding raises questions on evenhandedness but does not by itself imply lack of it as there are other considerations in access decisions. It rather underscores the need to scrutinize these cases. Area departments do not have a list of countries that expressed interest in an EA program but which, after discussion with staff, requested a NA program or requested no program at all. This lack of information poses a challenge to evaluating evenhandedness in this aspect. It is crucial to keep a systematic and timely record of such cases, along with an explanation of why the request was declined. The empirical results also show that, other things being equal, countries with lower income per capita and a smaller relative economic size are less likely to get a program with EA rather than NA. The Fund could use a framework to systematically determine cases for higher scrutiny. Analytical tools modeling selection into programs could provide a benchmark to identify "exceptional" BOP needs, similar to their use in this paper. Evenhandedness and transparency could then be facilitated by systematically identifying cases with "exceptional" BOP needs for high scrutiny during the review process and the Board discussions. For NA cases with exceptional BOP needs, high scrutiny would involve explicitly making the case for why an NA, not an EA, program is considered appropriate, factoring in assessments of the EAC, CtR, debt sustainability, support from other official creditors, and the economic and political feasibility of the adjustment. While these factors are relevant for all access decisions, EA or NA, keeping a systematic and transparent record of such NA cases would raise the evidentiary standards for evenhandedness in EA versus NA decisions.

63.   **For assessing EAC1, there is no requirement to reflect whether the member's debt is sustainable with high probability or not with high probability (that is, whether it is in the "green" or "gray" zone).** The gray-zone cases pose higher credit risk to the IMF, compounded by potential negative market reactions to increased subordination risk. Access levels are determined by BOP needs, the availability of official financing, and the assumed catalytic impact of Fund financing taking into account program adjustment to restore medium-term external viability. The empirical literature indicates at best non-existent, at worst negative, catalytic impact in the gray zone. However, the IMF does not have an analytical framework to assess the influence of the access level on future BOP needs, where the access level may affect private capital flows (positively) through confidence effects and (negatively) through subordination risk. Capacity to repay assessments do not fully reflect these considerations.

64.   **Several interviewees felt that raising the level of scrutiny for access decisions in the gray zone will serve the EAP objectives better.** The empirical results go in the same direction, findings that the higher a member's outstanding debt to the IMF as a share of its cumulative access limit, the greater the likelihood of a successor program (consistent with "evergreening" of IMF credit). Higher scrutiny will entail an explicit (and analytical) justification of the projected catalytic impact underpinning the access decision and provide additional protection to align implementation of EAC1 better with the intent of the 2016 revisions: Once the access level is anchored analytically, any remaining financing gap will need to be filled by maintaining non-IMF exposure (reprofiling or official financing on sufficiently favorable terms).

65.   **Another finding is that when external conditions become very favorable, rigorous assessments of EAC1 at program reviews could limit excessive buildup of IMF debt, reducing subordination risk.** Besides accumulating additional reserves, programs could prepare an exit strategy under which a reduction in the access level or a switch to a precautionary program could be contemplated without jeopardizing adverse market reactions, supported by effective communication.

66.   **Many consider EAC4 to be the most important criterion but the lack of a concrete framework or guidance to assess EAC4 appears to be a problem for effective implementation.** The updated 2024 guidance note strengthens the basis for assessing the realism of planned fiscal adjustment and growth as well as for analyzing institutional and political capacity. However, for the latter the guidance still relies heavily on staff judgment. While staff generally have a good sense of the authorities' political and institutional capacity to deliver the required adjustment and benefit importantly from the field presence of resident representatives, a consistent basis is lacking for making their assessments.

67.   **The evaluation collected views on how to substantiate a framework for EAC4 to ensure that programs are designed for high probability of success and have a politically high likelihood of being implemented.** Suggestions from the interviewees included integrating the full set of DSA realism tools better with the macro-framework; using IPF models to inform the exchange rate pass-through to inflation; assessing past performance on certain policy measures (such as VAT reforms, central bank independence, subsidy reforms, exchange rate flexibility); using the history of Fund engagement (both program and surveillance); using prior actions and reviews more effectively; and tailoring program duration and the type of the arrangement well to the nature of the BOP pressures (specifically by presuming a 4-year EFF to resolve the structural BOP problems). It is also important to engage with a wide section of stakeholders, including not just political counterparts but also civil society, industry, opinion makers, and others to form an objective view of the member's political and institutional capacity.

68.   **The evidence suggests that upcoming elections during the program period can make it harder to assess EAC4, but political assurances did not seem to make any difference, casting doubt on their effectiveness.** Nevertheless, a caveat is that staff might have requested political assurances in programs with a particularly challenging political environment

and ownership issues, thus, more likely to perform poorly. Overall, given the significant political cost incurred by the government to obtain political assurances, their net benefit is questionable. A common thread is that it depends on country-specific circumstances and not on a one-size-fits all approach. Where common public statements are provided from across the political spectrum, they provide some assurance of the member's ownership of program policies. However, even then there may be a question about the scope of the statements and their durability. In some countries, it is simply unrealistic to expect the Opposition and the incumbent Administration to make joint statements on particular policies, especially close to an election. Upcoming elections in countries with highly polarized politics makes it impossible to assess EAC4 with sufficient confidence. A clear articulation of the risks in such circumstances is important for ensuring the Fund's decisions are sufficiently informed by risk considerations.

69.   **For fulfilling EAC4, program design needs to pay attention to the social and political implications of program measures and ensure social protection.** EAC4 is in part about ensuring the realism of program measures by considering in advance the political and institutional issues that may arise. It is especially important to protect the most vulnerable from the adverse effects of macroeconomic adjustment on poverty and inequality, including through close collaboration with partners, particularly the World Bank.

ANNEX I. WHAT DETERMINES SELECTION INTO THE IMF-SUPPORTED PROGRAMS WITH EA?

A fundamental question for the evaluation of the IMF's EAP is whether the EAP was implemented evenhandedly, which was one of the core objectives of the policy when it was introduced in 2002. The factors affecting selection into EA versus NA programs and the evenhandedness of such decisions have not yet received attention in the empirical literature on the IMF-supported programs. This paper introduces a novel empirical work to address these issues, thereby, fills a gap in the literature.

This paper has a two-step empirical approach: First, it estimates the factors affecting selection into IMF financing arrangements as well as those for NA versus EA arrangements. Assessing these factors is highly relevant to evenhandedness, thus, enlightening on its own right, such as whether political factors influenced the selection into EA programs, the extent to which "evergreening" large IMF loans played a role in successor EA arrangements, and whether certain country characteristics affected the likelihood of EA versus NA arrangements. Second, using the results from the empirical models, this paper identifies the groups critical to a case-by-case assessment of evenhandedness: (i) EA programs that got EA despite no exceptional BOP pressures; and (ii) programs prior to which the member was experiencing exceptional BOP pressures but got NA. This empirical strategy helps overcome a challenge to the evaluability of evenhandedness: Area departments do not systematically track the list of countries that expressed interest in an EA program but got NA or no program. The model predictions for these groups do not immediately imply lack of evenhandedness, as there are other considerations in access decisions, but help identify cases for further scrutiny. The paper also examines these groups through a case-by-case analysis.

Methodology

This paper estimates the effects of a wide range of variables on the probability of approval of GRA arrangements as well as on the probability of an arrangement with EA. Only non-precautionary GRA arrangements are included to capture *actual* BOP needs prior to approval.[1] A wide set of covariates is tested, all lagged, except for those representing global shocks. The panel dataset consists of all IMF member countries over 2002–22, excluding the countries eligible for

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[1] During the evaluation period, the Fund's precautionary lending toolkit included the Flexible Credit Line (FCL), the Short-term Liquidity Line (SLL), the Precautionary and Liquidity Line (PLL) (previously the Precautionary Credit Line (PCL)), and precautionary SBAs. The FCL, PLL, and SBA can be approved when countries face actual, prospective, or potential BOP needs, while the SLL can only be approved for countries with potential BOP needs at approval (IMF, 2023). The sample excludes precautionary arrangements, unless they were drawn down during the first year of the program, to capture the actual macroeconomic and financial problems leading to a program request.

the IMF's concessional financing (LIDCs) and small states.[2] The estimation sample is determined by data availability and has 1224 observations for 80 countries (Annex I Table AI.1), covering 1129 no-program episodes and 95 programs (32 EA and 63 NA programs). The panel dataset is unbalanced. For program observations, only the approval years are taken while other program years and the precautionary arrangements that were not drawn are excluded from the sample.[3] For the countries that graduated from the PRGT-eligibility during the sample period, only the observations after their graduation are included.

A relevant question for assessing evenhandedness is whether the selection models are empirically different for EA and NA programs. Three sets of dependent variables were constructed for three benchmark models: two binary dependent variables for the binomial response models and one multinomial dependent variable for the multinomial ordered response model. In *benchmark model I (BM I)*, the dependent variable takes the values of 0 and 1 for no-program and program observations, respectively, while the second one for *benchmark model II (BM II)* is 0 for no-program and NA-program observations and 1 for programs with EA. These two models are estimated to see whether the model specification remains the same when deciding on a NA or an EA program; that is, whether the IMF decision is a matter of predicting higher probabilities for EA cases from the same model. In *benchmark model III (BM III)*, dependent variable is an ordered response taking the values of 0 for non-program, 1 for NA-program, and 2 for EA program observations, which implicitly imposes the same model for EA and NA decisions, but the ordering represents an expected deterioration in the macroeconomic conditions from better to worse from no programs to NA programs and then to EA programs. In an ordered response model, y is an ordered response taking the values $\{0, 1, 2, …, J\}$ for some integer J. The values assigned to ordered response is not arbitrary, although the magnitudes are. They usually signify an ordering of responses monotonically changing from better to worse or vice versa. Finally, two variants of BM I are estimated by excluding (i) the EA arrangements and (ii) NA arrangements from the sample to estimate a *NA-only* and an *EA-only* specification respectively to identify differences in what determined selection into each.

A wide range of determinants of program participation is tested in the model, covering macroeconomic and financial variables, global shocks, IMF-specific variables, country characteristics, and political factors. Annex I Table AI.2. presents the variables found significant. The exchange market pressure index (EMPI) is constructed by using movements in the nominal

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[2] Small developing states (SDS) are IMF members with populations less than 1.5 million (excluding advanced economies and high-income fuel-exporting countries). They are excluded from the sample to avoid weakening the econometric estimates for the rest in light of the key structural differences, including limited scope for output and export diversification and remoteness, which amplify exposure to shocks and the volatility of economic variables, high frequency/impact of natural disasters, and limited human resource and institutional capacity. Only 12 of 34 SDS have full data for the benchmark specification. When SDS are included in the sample, capital flow variables become insignificant, while other variables remain significant.

[3] Other program years are excluded as the model estimates the determinants of signing a program, where the Fund decides on whether an EA or an NA program would be appropriate.

exchange rate and international reserves. Differently from earlier studies, this study incorporates the black-market (or parallel market) premium[4]:

$$EMP_{it} = \frac{1}{\sigma_{\Delta\%er_{it}}}\Delta\%er_{it} - \frac{1}{\sigma_{\Delta res_{it}}}\Delta res_{it} + \frac{1}{\sigma_{\Delta\%er_{it}}}ln(1 + blackpr_{it})$$

where $\Delta\%er_{it}$ is the annual percentage change of the nominal bilateral exchange rate of country i at time t, Δres_{it} is the annual change in net foreign assets (NFA) scaled by the lagged value of the monetary base (MB), and $\sigma_{\Delta\%er_{it}}$ and $\sigma_{\Delta res_{it}}$ are the standard deviations of the exchange rate and the reserve components over 2002-2022. The index increases with a depreciation of the domestic currency, with the emergence of a black-market premium, and with a loss of international reserves. Hence, an increase reflects stronger selling pressure on the domestic currency.

Econometric Specification

The models are estimated by probit and ordered probit estimators. The estimation results are presented in Annex I Table AI.2. A general model for the panel ordered probit model is presented in Wooldridge (2010) for y conditional on explanatory variables x, derived from a latent variable model: $y_{it}^* = x_{it}\beta + c_i + e_{it}, \ e_{it}|x_{it}, c_i \sim IN(0,1), c_{it}|x_{it} \sim IN(0, \sigma_c^2) \ and \ t = 1, \dots, T$

Where β is a $K \times 1$ vector of coefficients associated with x, which does not contain a constant, and c_i is unobserved country-specific effect uncorrelated with x_{it}. Let $\alpha_1 < \alpha_2 < \cdots < \alpha_J$ be unknown cut points (or threshold parameters) to be estimated that define mapping from the latent variable y_{it}^* to the observed response, y_{it}.

$$y_{it} = j \ if \ \alpha_{j-1} < y_{it}^* < \alpha_j \ with \ \alpha_0 = -\infty \ and \ \alpha_J = \infty$$

When J=1, the model reduces to a binary probit model. Given the standard normal assumption for e_{it}, the distribution of y conditional on explanatory variables x is then derived from the response probability:

$$P(y = 0|x) = P(y^* \leq \alpha_1|x) = \Phi(\alpha 1 - x\beta)$$
$$P(y = 1|x) = P(y^* \leq \alpha_1|x) = \Phi(\alpha 2 - x\beta) - \Phi(\alpha 1 - x\beta)$$
$$\vdots$$
$$P(y = J|x) = P(y^* \leq \alpha_J|x) = \Phi(\alpha J - x\beta)$$

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[4] Eichengreen and others (1995) and Kaminsky and Reinhart (1999). As in the latter, domestic interest rate component is excluded owing to data limitations on market-determined interest rates in developing countries. As in Cardarelli, Elekdag, and Kose (2009), the exchange rate and reserve components are derived as follows:

$$\Delta\%er_{it} = \frac{er_{it} - er_{it-1}}{er_{it-1}} \qquad \Delta res_{it} = \frac{NFA_{it} - NFA_{it-1}}{MB_{it-1}}$$

where er_{it} is the nominal bilateral exchange rate of country i at time t against the US$ where an increase corresponds to a depreciation. For fixed exchange rate regimes, the nominal bilateral exchange rate against the reference currency is used. NFA and MB refer to the net foreign assets and the monetary base, respectively, taken from the IMF's IFS database. Both NFA and MB are converted to the US$ using the end-period exchange rates.

where Φ is the cumulative normal density function. Depending on the assumptions with respect to the panel heterogeneity (country-specific effects), i.e., how c_i is treated, different estimators are constructed. A *random effects (RE) probit* model treats the country-specific effect, c_i, as an unobserved random variable with $c_i \mid x_{it} \sim IN(0, \sigma_c^2)$. The RE model corrects for the correlation of observations over time for a given country. The correlation between two successive error terms for the same country, $v_{it} = c_i + u_{it}$ with $u_{it} \sim IN(0, \sigma_u^2)$, is a constant given by $\rho = cor(v_{it}, v_{it-1}) = \sigma_c^2 / (\sigma_c^2 + \sigma_u^2)$. The traditional RE model assumes that c_i and x_i are independent. Pooled estimation in nonlinear models leads to inconsistent parameter estimates if the assumed RE model is appropriate and vice versa. A fixed effects (FE) probit model treats c_i as parameters to be estimated along with β, therefore, it does not make any assumptions about the distribution of c_i given x_i. In long panels, this poses no problems. However, in short panels, both and c_i are inconsistently estimated due to the incidental parameters problem. A c*orrelated RE* model relaxes independence between c_i and x_i using the Chamberlain (1982)-Mundlak (1978) device under conditional normality as below. In this specification, the time averages of covariates for each panel (only over the sample observations for an unbalanced panel) are often used to save on degrees of freedom. Henceforth, this estimator is called *Chamberlain's correlated RE*.

$$ c_i = \bar{x}_i \xi + a_i \text{ where } a_i \sim IN(0, \sigma_a^2) \tag{2} $$

Finally, after including the time averages of covariates if ρ becomes insignificant, the model is estimated by pooled probit with an extended set of covariates. This estimator is called *Chamberlain's probit*.

The factors affecting IMF decisions on selection into an EA versus a NA program are notably different (BM II, NA-only, and EA-only in Annex I Table AI.2). Specifications assuming the same selection model for NA and EA programs perform worse than those testing separate models for NA and EA (BM III versus BM II, NA-only, and EA-only in Annex I Table AI.2 and the corresponding AUC metrics in Annex I Table AI.3). While programs are quite distinct from no-program episodes, NA versus EA programs are less so when the same model is imposed.

Table AI.1 The Estimation Sample, 2002–22						
Country	NA Programs	EA Programs		Country	NA Programs	EA Programs
1 Albania	2	0		41 Italy	0	0
2 Algeria	0	0		42 Jamaica	3	0
3 Angola	1	0		43 Jordan	3	1
4 Argentina	0	3		44 Kazakhstan	0	0
5 Armenia	3	1		45 Kuwait	0	0
6 Austria	0	0		46 Latvia	0	1
7 Azerbaijan	0	0		47 Lebanon	0	0
8 Bahrain	0	0		48 Lithuania	0	0
9 Belarus	0	1		49 Malaysia	0	0
10 Belgium	0	0		50 Malta	0	0
11 Bolivia	1	0		51 Mexico	0	0
12 Bosnia and Herzegovina	4	0		52 Mongolia	2	1
13 Botswana	0	0		53 Morocco	1	0
14 Brazil	0	1		54 Namibia	1	0
15 Brunei Darussalam	0	0		55 Netherlands	0	0
16 Bulgaria	1	0		56 North Macedonia	2	1
17 Chile	0	0		57 Oman	0	0
18 China	0	0		58 Pakistan	3	1
19 Colombia	2	0		59 Panama	1	0
20 Costa Rica	2	0		60 Paraguay	1	0
21 Cyprus	1	0		61 Peru	0	0
22 Dominican Republic	4	0		62 Philippines	0	0
23 Ecuador	3	1		63 Poland	0	0
24 Egypt	1	2		64 Portugal	0	1
25 El Salvador	1	0		65 Qatar	0	0
26 Equatorial Guinea	2	0		66 Romania	0	1
27 Estonia	0	0		67 Russia	0	0
28 Finland	0	0		68 Serbia	1	1
29 France	0	0		69 Slovak Republic	0	0
30 Gabon	3	0		70 Slovenia	0	0
31 Georgia	2	1		71 South Africa	1	0
32 Germany	0	0		72 Spain	0	0
33 Greece	0	2		73 Sri Lanka	1	1
34 Guatemala	1	0		74 Syria	0	0
35 Hungary	0	1		75 Thailand	0	0
36 Iceland	0	1		76 Tunisia	3	0
37 India	0	0		77 Türkiye	0	2
38 Indonesia	0	0		78 Ukraine	3	4
39 Iraq	3	0		79 United Arab Emirates	0	0
40 Ireland	0	1		80 Uruguay	0	2

Source: Author's calculations.
Note: The panel dataset covers all IMF member countries over 2002–22, excluding the countries eligible for the IMF's concessional financing (LIDCs) and small states. For the countries that graduated from the PRGT-eligibility during the sample period, only the observations after their graduation are included. The estimation sample covers 95 IMF-supported programs, 32 with EA or 63 with NA. Programs years, except for the approval year, and precautionary arrangements (if not drawn down) are excluded.

Table AI.2. Estimation Results: Selection into the IMF-Supported Programs, EA versus NA

	(1) BM I	(2) BM II	(3) BM III	(4) NA	(5) EA	(6) BM IV
BoP Variables						
Exchange market pressure index (t-1)	0.170***	0.163***	0.171***	0.131**	0.168***	
	(0.0380)	(0.0360)	(0.0334)	(0.0525)	(0.0381)	
Portfolio investment (net) to GDP (t-1)	-0.0373**		-0.0343**	-0.0361		-0.0340**
	(0.0170)		(0.0150)	(0.0240)		(0.0145)
Other investment (net) to GDP (t-1)	-0.0248*		-0.0214*	0.00405		
	(0.0138)		(0.0119)	(0.0189)		
Reserves to GDP (t-1)*ERR(fixed) (t-1)	-0.0311**		-0.0297**	-0.0356**		-0.0135
	(0.0128)		(0.0116)	(0.0164)		(0.0091)
Reserves to GDP (t-1)*ERR(intermediate) (t-1)	-0.0354***		-0.0339***	-0.0386**		-0.0200**
	(0.0118)		(0.0109)	(0.0152)		(0.0084)
Reserves to GDP (t-1)*ERR(flexible) (t-1)	-0.0450***		-0.0427***	-0.0452**		-0.0222*
	(0.0157)		(0.0143)	(0.0213)		(0.0120)
Public external debt to of GDP (t-1)	0.0113**		0.00730*	0.0175***		0.0128***
	(0.0048)		(0.0044)	(0.0064)		(0.0038)
Current account balance to GDP (t-1)		-0.0616***			-0.0598***	
		(0.0179)			(0.0179)	
Reserves to GDP (t-1)		-0.0179*			-0.0205*	
		(0.0104)			(0.0110)	
Other Macroeconomic Variables						
General government balance to GDP (t-1)	-0.0485*	-0.0882***	-0.0469**	-0.0766**	-0.0845***	-0.0410*
	(0.0250)	(0.0313)	(0.0229)	(0.0319)	(0.0318)	(0.0218)
Total public debt to GDP (t-1)		-0.00946**			-0.00828*	
		(0.0046)			(0.0046)	
Global Shocks						
Real GDP growth, World (t)	-0.252***		-0.155***	-0.305***		-0.314***
	(0.0355)		(0.0371)	(0.0453)		(0.0458)
VIX (CBOE volatility index) (t)		0.0950***	0.0305**		0.0957***	-0.0444***
		(0.0209)	(0.0145)		(0.0212)	(0.0171)
IMF-specific Variables						
GRA credit outstanding to Cumulative AL (t-1)	0.701***	1.047***	0.785***	0.36	1.029***	0.264
	(0.1880)	(0.2070)	(0.1710)	(0.3980)	(0.2080)	(0.2400)
Country Characteristics						
Real GDP per capita, log (t-1)	-0.793***	-0.371**	-0.637***	-1.265***	-0.467***	-0.808***
	(0.1780)	(0.1590)	(0.1510)	(0.3020)	(0.1680)	(0.1420)
Relative size (GDP to World GDP) (t-1)	-1.249***	-0.341	-1.047***	-3.639***	-0.419	-2.546***
	(0.4410)	(0.3020)	(0.3750)	(1.2950)	(0.3120)	(0.7640)
Euro area membership after the ESM (t)	-1.604**		-1.512**	-0.97		-1.048*
	(0.6930)		(0.6580)	(0.8310)		(0.5890)
Country-specific Average						
Current account balance to GDP	-0.0623**		-0.0596**	-0.0532		
	(0.0302)		(0.0273)	(0.0391)		
Banking Crises						
Banking crisis (t-1)	0.810**	1.049***	0.803***	0.993*	1.064***	
	(0.3560)	(0.3570)	(0.3100)	(0.5220)	(0.3750)	
Constant	6.190***	-1.216		10.22***	-0.271	7.630***
	(1.5670)	(1.4610)		(2.5780)	(1.5460)	(1.3680)
Number of observations	1224	1224	1224	1192	1161	1224
Number of countries	80	80	80	80	80	80

Source: Author's calculations.

Note: Binomial outcomes in (1)-(2) and (4)-(5): No program and NA in (2) =0; EA or NA in (1), EA in (2) and (5), and NA in (4) =1. Multinomial outcomes in (3): No program=0, NA=1, and EA=2. Estimated by panel CRE probit in (1) and (4), panel probit in (2) and (5), and panel CRE ordered probit in (3). Significant at 10 percent: *; 5 percent: **; and 1 percent: ***. Standard errors in parentheses.

Table AI.3. Goodness of Fit

	Number of observations	AUC	Standard errors	Confidence interval (95 %)	
BM I	1,224	0.930	0.011	0.908	0.951
BM II	1,224	0.970	0.009	0.952	0.987
BM III					
No program	1,224	0.930	0.011	0.909	0.951
NA	1,224	0.905	0.015	0.876	0.934
EA	1,224	0.943	0.014	0.916	0.970
NA only	1,192	0.935	0.012	0.912	0.957
EA only	1,161	0.973	0.008	0.958	0.989

Source: Author's calculations.

Note: The goodness of fit for each benchmark model is assessed by the area under the Receiver Operating Characteristics curve (AUC), a higher AUC indicates a better model. AUC summarizes the performance of the model across all classification thresholds and ranges from zero to one.

ANNEX II. UPCOMING ELECTIONS AND POLITICAL ASSURANCES IN EA PROGRAMS

Table AII.1. Political Assurances for IMF Programs with EA, 2002–22					
Country	Program	Program Period[1]	Program Status[2]	Political Assurances[3]	Elections[4]
Argentina	2003 SBA	Sep 2003 - Jan 2006	Off-track	Yes	2003E
Argentina	2018 SBA	Jun 2018 -Jul 2020	Off-track	No	2019E,L
Armenia	2009 SBA	Mar 2009 - Jun 2010	Off-track	No	N.A.
Belarus	2009 SBA	Jan 2009 -Mar 2010	Completed	No	N.A.
Brazil	2002 SBA	Sep 2002 -Mar 2005	Completed	Yes	2002E,L
Costa Rica	2009 SBA	Apr 2009 -Jul 2010	Completed	No	2010E,L
Ecuador	2020 EFF	Sep 2020 - Dec 2022	Completed	Yes	2021E,L
Egypt	2020 SBA	Jun 2020 - Jun 2021	Completed	No	2020L
El Salvador	2009 SBA	Jan 2009 - Mar 2010	Off-track	Yes	2009E,L
Georgia	2008 SBA	Sep 2008 - Jun 2011	Completed	No	N.A.
Greece	2010 SBA	May 2010 - Mar 2012	Off-track	No	2012 L
Greece	2012 EFF	Mar 2012 - Jan 2016	Off-track	Yes	2012L, 2015L
Guatemala	2009 SBA	Apr 2009 - Oct 2010	Completed	No	N.A.
Hungary	2008 SBA	Nov 2008 - Oct 2010	Off-track	Yes	2010E,L
Iceland	2008 SBA	Nov 2008 - Aug 2011	Completed	No	2009L
Ireland	2010 EFF	Dec 2010 - Dec 2013	Completed	Yes	2011L
Jordan	2012 SBA	Aug 2012 - Aug 2015	Completed	No	N.A.
St. Kitts and Nevis	2011 SBA	Jul 2011 - Jul 2014	Completed	No	N.A.
Latvia	2008 SBA	Dec 2008 - Dec 2011	Completed	Yes	2011L
Sri Lanka	2009 SBA	Jul 2009 - Jul 2012	Off-track	No	2010E,L
Morocco	2012 PLL	Aug 2012 - Jul 2014	Completed	No	N.A.
Morocco	2014 PLL	Jul 2014 - Jul 2016	Completed	No	2016L
Macedonia, FYR	2011 PCL	Jan 2011 - Jan 2013	Off-track	No	2011L
Mongolia	2009 SBA	Apr 2009 - Oct 2010	Completed	Yes	2009E
Pakistan	2008 SBA	Nov 2008 - Sep 2011	Off-track	No	N.A.
Panama	2021 PLL	Jan 2021 - Jan 2023	Largely Implemented	No	N.A.
Portugal	2011 EFF	May 2011 - Jun 2014	Completed	Yes	2011L
Romania	2009 SBA	May 2009 - Mar 2011	Completed	No	N.A.
Romania	2011 SBA	Mar 2011 - Jun 2013	Completed	No	2012L
Romania	2013 SBA	Sep 2013 - Sep 2015	Completed	No	2014E
Serbia	2009 SBA	Jan 2009 - Apr 2011	Completed	No	N.A.
Türkiye	2005 SBA	May 2005 - May 2008	Completed	No	2007L
Ukraine	2008 SBA	Nov 2008 - Jul 2010	Off-track	Yes	2010E
Ukraine	2010 SBA	Jul 2010 - Dec 2012	Off-track	No	2012L
Ukraine	2014 SBA	Apr 2014 – Mar 2015	Off-track	Yes	2014E,L
Ukraine	2015 SBA	Mar 2015 - Dec 2018	Off-track	No	N.A.
Uruguay	2005 SBA	Jun 2005 - Dec 2006	Completed	No	N.A.

Sources: Author's calculations; Montiel, Cohen-Setton, and Li (2024); International Foundation for Electoral Systems; IMF Staff Reports; Monitoring of Fund Arrangements (MONA) database.

Note: N.A. indicates that no elections were held during the program.

[1] The expiration date is the original expiration date set at program approval.

[2] Program implementation status is classified into one of following categories: Completed, largely implemented, off-track, or quickly off-track. Montiel, Cohen-Setton, and Li (2024) provides the definitions of these categories.

[3] Political assurances refer to assurances that the Fund may seek from key candidates that the economic program can be implemented in the event of a change of government during a Fund-supported program. The modalities of political assurances depend on country circumstances and judgement, including a letter to the Board or public statement from opposition parties/ presidential candidates, a joint government and staff consultation, government consultation with the opposition parties, or other political actors signing the LOI.

[4] The year(s) of elections held during the program period. E: Executive elections; L: Legislative elections; and N.A.: No elections.

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