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BACKGROUND PAPER

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Exceptional Access Criteria Part II: Debt Sustainability and Market Access

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IEO Evaluation Paper
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Exceptional Access Criteria Part II: Debt Sustainability and Market Access

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ABBREVIATIONS

DS	Debt Sustainability
DSA	Debt Sustainability Assessment
EAC	Exceptional Access Criteria
EAC2	Exceptional Access Criterion 2 (Debt Sustainability Criterion)
EAC3	Exceptional Access Criterion 3 (Market Access Criterion)
EAP	Exceptional Access Policy
EFF	Extended Fund Facility
FX	Foreign Exchange
FXA	Foreign Exchange Availability
GDP	Gross Domestic Product
GFN	Gross Financing Need
LiA	Lending into Arrears
LiOA	Lending into Official Arrears
MAC DSA	Debt Sustainability Framework for Market Access Country
NA	Normal Access
SBA	Stand-By Arrangement
SRDSF	Sovereign Risk and Debt Sustainability Framework

EXECUTIVE SUMMARY

The IMF's exceptional access policy (EAP) gives public debt dynamics and market access a key role in determining whether exceptional access (EA) can be granted without resorting to debt restructuring. The debt sustainability criterion (EAC2) makes EA conditional on the likelihood that public debt is sustainable. The market access criterion (EAC3) focuses on whether the sovereign will have sufficient access to private market financing to meet its IMF repurchases. This background paper evaluates these two criteria.

The criteria are useful to staff in designing programs and in discussing them with country authorities. Still, the application of the criteria leaves too ample margin for interpretation. A tighter application will require the best IMF staff judgement, a richer analytical toolbox, and an effort by the international community to reduce the stigma associated with debt restructuring.

The 2016 review of the policy left the Fund exposed to additional risks. The 2016 version of the criteria removed the controversial systemic exemption introduced in 2010 and replaced it with a number of alternative routes to obtain EA when public debt is sustainable but not with high probability. While the reform placed market access at the center of the framework, there is no solid guidance nor an agreed framework to assess prospects for market access, neither for EAC2 nor for EAC3. This implies the IMF is likely taking on additional risks.

The current policy design has presented staff with substantial difficulties to assess EAC2, especially when public debt is deemed sustainable but not with high probability. Staff guidance would be useful to clarify the meaning of "sufficient private exposure" and of "market access." Staff guidance would be also useful to delineate the roles played by different types of liabilities (by currency, market of origin, and holder) in assessing both criteria. Modern domestic debt markets increasingly are populated by both resident and international investors that enable large and sudden cross-border swings in debt ownership, with implications for whether the criteria are met.

The lack of an analytical framework to assess EAC3 allows for the justification of market access prospects to be weak. This increases the risk of countries failing to have sufficient access to market financing at affordable conditions to be able to repay the IMF in time. Moreover, presenting as "technical" judgments that are made for strategic reasons can damage the credibility of the framework. The debt sustainability analysis framework can be further extended to provide a firmer basis for sound judgment.

I. INTRODUCTION

1. **Exceptional access criteria were introduced out of a concern that the IMF had been acting with too much discretion when providing financing in circumstances where there were doubts about the sustainability of a member's public debt.** The perceived lack of clarity regarding the basis for decisions about when exceptional Fund financing was to be accompanied by a restructuring of privately held public debt increased market uncertainty (IMF, 2002a). Moreover, the existing discretion made the Fund vulnerable to political pressures to provide exceptional access (EA) even if prospects for success were poor and public debt was likely unsustainable (Schadler, 2013). These concerns help explain why two of the four criteria underpinning the exceptional access policy (EAP) framework are intimately linked to the members' public debt: the Debt Sustainability Criterion (exceptional access criterion 2, EAC2) and the Market Access Criterion (exceptional access criterion 3, EAC3).

2. **The EAC2 conditions EA on the likelihood that public debt is sustainable.** Originally, the criterion was short and referred to the need for the borrowing country to show, through a rigorous and systematic analysis, a high probability of having a sustainable debt. The purpose was to prevent Fund lending into unsustainable situations, thus protecting the revolving nature of Fund resources.[1] Debt sustainability ensures that the Fund program will go toward helping the country and that the Fund will be repaid. The EAC2 is assessed using the Debt Sustainability Analysis (DSA), which evaluates quantitatively whether a combination of IMF financing and policy adjustment can make future dynamics of debt and associated financing needs remain manageable.

3. **The EAC3 focuses on whether the sovereign will have sufficient access to private market financing to meet its IMF repurchases.** The criterion, which is to guide staff in designing the program, acts as an assurance that the member will have sufficient market access to be able to repay the Fund. Its original wording was "*The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge.*" In contrast to EAC2, there is no officially endorsed quantitative framework to assess this criterion.

4. **Both criteria remained unchanged until 2009, when a first set of changes were introduced.** This lack of reform underlines that the framework did not face substantial challenges until the global financial crisis. Since then, EAC2 and EAC3 have undergone additional modifications in 2010 and 2016. Appendix I reproduces the subsequent revisions to both criteria.[2]

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[1] Neither normal access (NA) nor EA programs can be approved if debt is unsustainable. Approval of a NA program simply requires that debt is sustainable. In contrast, approval of an EA program requires further qualifications regarding debt sustainability.

[2] The criteria were also discussed in 2004 (IMF, 2004). At the time, the Board found no need to modify them.

5. **Both criteria were first modified in 2009 to clarify their implementation and to make them applicable in a wider set of circumstances.** The reform, which was informed by the experiences with Argentina (2003), Brazil (2003) and Türkiye (2005), was also done with a view to simplify the framework, which had come to be seen unnecessarily cumbersome (IMF, 2009a; 2009b; 2009c). In 2010, in the context of the Greek crisis, a systemic exemption to the requirement of "high probability" was introduced. The exemption enabled access when debt was not sustainable with high probability if there were risks that a default could trigger systemic spillovers (IMF, 2013a; IEO, 2016). The approach was taken to avoid forcing Greece and other euro area countries into a default. At this time, after some debate, EAC3 remained unaltered.

6. **The 2016 revision of both criteria was done with a view to "better calibrate IMF lending decisions to members' debt vulnerabilities while avoiding unnecessary costs for the members, their creditors, and the overall system."** The revision dropped the systemic exemption and replaced it with an expanded set of options to meet the criterion when debt cannot be said to be sustainable with a high probability. The new alternatives include the possibility of carrying out a debt reprofiling. EAC3 was redrafted to clarify the time and extent at which market re-access should be expected (IMF, 2016c).

7. **While EAC2 and EAC3 are assessed independently and need to be met separately, they are intimately linked.** Good prospects of market access are germane to debt sustainability, and debt sustainability is the only way to maintain affordable market access in the long run. After the 2016 reform, which gives a key role to market access in determining the path of action when debt is not sustainable with high probability, the link between the criteria has become more evident.

8. **By requiring a high probability of debt sustainability, the Debt Sustainability Criterion translates into a requirement for public debt restructuring when debt sustainability is assessed as being below this threshold.** The DSA is also used in debt restructuring environments to guide the negotiations with creditors. Given these key roles, the design and role of the criteria remain the target of extensive and heated academic and policy debates.

9. **The 2016 version of the criteria is already presenting staff with substantial difficulties in their evaluation. This calls for the need to offer staff guidance into how the criteria should be assessed**. Financial markets development and integration, in particular the development of domestic markets and of active secondary markets that enable rapid portfolio shifts across borders, are making the notion of market access, as well distinction between residents and non-residents—both central to the EAP framework—increasingly hard to pin down. These developments have proved a recent challenge for implementing EAC2 and EAC3. Another key concern is the pervasive inability of judgement to improve upon the technical analysis. These gaps in judgment helps explain the protracted presence of substantial official loans on sovereign debt portfolios, and of the related inability of countries to receive debt relief that is not provided too little and too late (IMF, 2015a; 2015b).

10. **Looking ahead, in a shock-prone world, in which geopolitical fragmentation risks reducing countries' resilience, it is of paramount importance that the IMF makes sure members can receive adequate financing and advice.** This might require that the IMF does more to preserve the revolving nature of its resources, in particular by considering the extent to which it can rely on judgments about market access to provide substantial lending into uncertain solvency.

11. **This chapter critically evaluates the design and implementation of both criteria, with a focus on the existing version of the framework.**[3] The paper takes a multifaceted approach. A major source of evidence was a thorough revision of the evolution of the policy, as well as a desk review of documentation (both published and unpublished IMF documents) related to nine selected EA programs: Pakistan (2008), Latvia (2008), Jordan (2012), Greece (2012), Ukraine (2014 and 2015), Argentina (2018), Ecuador (2020) and Egypt (2020). For the post-2016 experience the chapter relies on the experience gained through the arrangements with Argentina, Ecuador, and Egypt.[4]

12. **Table 1 presents the most relevant details of each program reviewed here**. The selected cases are sufficiently representative of EAP application as they cover many configurations of the EAP framework. They include programs governed by both the 2002 and the 2009 configurations of the policy (Pakistan and Latvia), as well as cases covered by the 2010 reform (Greece and Ukraine). The evaluation also covers different DSA frameworks, although it excludes the application of the tool currently in place, the Sovereign Risk and Debt Sustainability Framework (SRDSF).[5] The cases cover programs involving debt operations and programs where the arrears policies applied. There are programs under the Rapid Financing Instrument (RFI), Stand-By Arrangements (SBAs) and Extended Fund Facilities (EFFs), as well as cases of repeated use of IMF resources. Jordan, Pakistan, and Ukraine are repeated and regular users of Fund resources. Finally, the cases include various debt restructurings (Greece, Ukraine, and Ecuador).

13. **The desk review was supplemented with an extensive set of interviews.** The interviews involved IMF staff who had either participated in the selected cases, or had been involved in the design of different versions of the EAP or of the DSA tools.[6]

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[3] In 2009, the IMF adopted an EAP for PRGT under criteria that differ with respect to market access and debt sustainability (see Abrams and Arora, 2024). Appendix II briefly describes these differences and discusses whether their rationale remains valid.

[4] Over 2016–22, there were five EA programs. This evaluation covers three of those. Appendix III briefly summarizes each case.

[5] Appendix IV shows substantial variation in the versions of the EA criteria and of the DSA tools across cases.

[6] The interviews were based on a standard set of questions, which varied depending on whether the interview related to a program or related to the design of the policy or its supporting tools.

Table 1. Country Cases Covered: Main Features

Country	Year	Program type	LiA	LiOA	Size (% of Quota)	Size (% of GDP)	Inherited Access	Co-Financing	Program Completed	Follow-up Program	DSA type	EAC2	Debt Operation	EAC3	Market Re-access
Pakistan	2008	SBA	N	NE	500.0	4.5	0.8	81.5	Y	Y	2002 DSA	Sust. With HP	N	Met	N
Latvia	2008	SBA	N	NE	1200.0	7.8	0.0	22.7	Y	N	2002 DSA	Sust. With HP	N	Met	1-Jun-2011
Greece	2012	EFF	N	NE	2158.8	13.0	9.5	15.4	N	N	2002 DSA + 2012 MAC DSA	Unsustainable	Y	Met	N
Jordan	2012	SBA	N	NE	800.0	6.5	0.0	24.4	Y	Y	2002 DSA + 2012 MAC DSA	Sust. With HP	N	Met	N
Ukraine	2014	SBA	N	NE	800.0	7.5	2.8	37.5	N	Y	2012 MAC DSA	Sust. With HP	N	Met	N
Ukraine	2015	EFF	Y	N	900.0	15.3	4.3	47.0	N	Y	2012 MAC DSA + HP Tool	Sust. Not HP	Y	Met	1-Jul-2016
Argentina	2018	SBA	Y	N	1277.4	9.0	0.0	100.0	N	Y	2012 MAC DSA + HP Tool	Sust. Not HP	N	Met	N
Ecuador	2020	EFF	Y	N	435.0	7.0	1.6	100.0	Y	Y	2012 MAC DSA + HP Tool	Sust. With HP	Y	Met	N
Egypt	2020	SBA	N	N	184.8	2.3	3.7	35.2	Y	Y	2012 MAC DSA + HP Tool	Sust. Not HP	N	Met	1-Sep-2020

Program size is measured at approval. NE refers to programs where the corresponding policy did not exist. Inherited access refers to outstanding access to IMF resources, measured as percent of GDP. Program co-financing is measured as IMF financing as percent official financing (estimated as IFI financing using 2018 ROC methodology). Market re-access is presented as documented in the relevant country EPEs.

14. **The analysis is further complemented with a review of the relevant academic and policy literature, as well as selected empirical evidence.** Using the Debt Sustainability Framework for Market Access Countries (MAC DSA) database, the chapter studies debt dynamics and market financing projections by IMF staff. To assess the role played by judgment, the chapter extends the analysis in IMF (2021) to all cases of EA since 2012. Finally, the chapter offers stylized facts on the effect of sovereign debt reprofiling on debt dynamics and on market access.

15. **The rest of this paper is organized as follows.** Section II offers a brief methodological description. Section III contains a review of the academic and policy literature. Section IV focuses on the design, rationale, and evolution of the criteria. Section V hinges on their practical implementation and discusses debt sustainability and market access outcomes. Section VI concludes with some lessons and directions for an improved implementation.

II. SELECT LITERATURE REVIEW

Debt Sustainability

16. **According to the IMF's definition of sustainable public debt, "public debt can be regarded as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level" (IMF, 2021).**

17. **This definition, which hinges upon the key drivers of debt dynamics and debt sustainability, fiscal and monetary policies as represented by growth, exchange rates, primary balances, as well as on the financing terms of debt, underlines the key role that market access conditions have for debt sustainability.** The dynamics of the nominal level of public debt depend on the existing debt stock, existing and future interest rates, current and future fiscal policy stance (public expenditures and revenues), as well as on the dynamics of the REER. In practice, institutions do not monitor the nominal level of public debt but the public debt-to-GDP ratio. As a result, current and future growth rates are key determinants of the evolution of public debt.

18. **There are different approaches to assess debt sustainability.** While the approaches can vary, the object of analysis is always the dynamic behavior of fiscal policy and public debt (Bouabdallah and others, 2017). "Fiscal reaction functions" show that a sufficient condition for sustainability is that the government systematically adjusts the primary balance in reaction to increases in debt. The "natural debt limit" is the maximum debt ratio that the government would be able to service even in the worst-case scenario. Finally, the "fiscal space" approach seeks to determine a "debt limit" beyond which fiscal fatigue impedes additional primary balance adjustment, leading the government to default. "Fiscal space" is derived empirically, starting from a fiscal reaction function in which fiscal fatigue is identified at a high debt level.

19. **Wyplosz (2011), Alcidi and Gros (2018), and Bouabdallah and others (2017) compare the conduct of DSA at different institutions with the analysis at the IMF.** These papers show that the approach to DSA followed by European Commission and the European Central Bank are not too different from the MAC DSA. Since 2014, the European Commission has used thresholds for debt stocks and for gross financing needs. An important difference highlighted by these papers relates to the different horizons of the analysis (substantially longer in Europe) and on the approach used to calculate future interest rates (more reliant on financial markets data in Europe).[7]

20. **Lang and Presbitero (2018), IMF (2017; 2019), and Erce (2020) report a concerning inability of expert judgment to improve upon the mechanical outcome of debt sustainability analyses.** IMF (2017), focusing on the LIC DSA, shows that judgment constrained by "optimized" mechanical rules tends to improve the performance of a DSA framework relative to that implied by strict rules. IMF (2019) reports that for the MAC DSA, judgment-based assessments were more imprecise than mechanical assessments. According to Lang and Presbitero (2018), who base their results on an analysis of the LIC DSA, both political interests and bureaucratic incentives influence the decision to intervene in the mechanical decision-making process.[8] Erce (2020) discusses similar biases in the production of DSA by euro area institutions.

21. **These results suggest that the room for discretion within the assessment of debt sustainability is a source of biased decision making.** Moreover, these findings help explain why debt restructuring operations often come too late, and when they come, they offer too little relief. According to the 2018 Review of Program Design and Conditionality, IMF-supported programs embedding sovereign debt restructuring operations tend to be more successful than those without. Despite this, debt operations are often inadequately timed and sized, or simply do not happen.

22. **An extensive literature discusses the drivers and consequences of sovereign defaults.[9]** Defaults often result from external shocks but require the existence of vulnerabilities. Ohnsorge and Pallan (2023) show that 80 percent of external defaults take place after U.S. monetary policy tightening, particularly countries with larger public debt. The literature shows that defaulting countries tend to suffer drops in output (Asonuma and Trebesch, 2016). The effect on output of a default on private external creditors can range between zero and 20 percent of GDP. Delays in restructuring can exacerbate financial instability and hamper growth. The effect is larger in fixed exchange rate countries, in those with higher external imbalances, and where financial markets are larger. Banking crises are likely after a sovereign default, especially

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[7] Appendix V briefly overviews the DSA frameworks of different European institutions.

[8] Countries that are politically aligned with the IMF's major shareholders are more likely to receive an improved rating, especially in election years and when the mechanical assessment is not clear-cut.

[9] Borenzstein and Panizza (2009) and Asonuma and others (2018) review the literature on the costs of sovereign default.

after large domestic debt restructuring operations and after post-default external debt restructurings. In such cases, financial spillovers trigger credit and investment crunches (Asonuma and others, 2021). There is also a negative impact of default on exports, which fall sharply following external defaults. Bai and others (2024) document that large IMF loans make debt restructuring less likely.

23. **Existing evidence shows that debt operations that are more comprehensive, those that offer nominal debt reductions, and those that achieve more relief are more effective.** They often lead to more substantial drops in output but are also accompanied by stronger recoveries and longer lasting reductions in debt stocks (Reinhart and Trebesch, 2016; IEO, 2021). According to Ohnsorge and Pallan (2023), two-thirds of external debt defaults with an above-median share of restructured debt, and nearly nine-tenths of external debt defaults with above-median haircuts, were associated with lower government debt five years after default. Ohnsorge and Pallan (2023) also note that more than one-third of sovereign debt defaults failed to lower public debt or the interest rate on government debt five years later. Countries having undergone defaults that failed to reduce debt stocks are likely to relapse into another default within five years. Restructurings are more likely to durably reduce debt and borrowing cost if growth is stronger and global conditions favorable.

24. **Restructuring external debt affects the economy by reducing the availability of external funding and forcing a more abrupt external adjustment process, characterized by trade surpluses and substantial capital flight (Kuvshinov and Zimmermann, 2019).** In contrast, restructuring domestic sovereign debt, which is the backbone of domestic financial systems, has a direct impact on the economy through the balance sheet of the creditors, and can trigger financial instability and banking crises (Erce and others, 2024). Inequality and developmental indicators are also affected by restructuring. External debt operations with principal reductions and domestic debt operations that exclude social security debt holdings are more likely to avoid increasing inequality and decreasing social spending, with its negative impact in long run growth prospects (Erce, 2021). Defaults result in higher poverty and worse health outcomes (Farah-Yacoub and others, 2022).

25. **Debt restructuring operations are often delayed by litigation and disagreements among creditors, making costs of default larger, particularly during external default (Panizza and others, 2009; Buchheit and others, 2019).** Political instability and the strategic behavior of both governments and creditors can also lead to longer restructuring delays.

26. **Foreign creditors buy local-currency and local-law bonds in the domestic markets of low and middle-income countries.** At the same time, domestic banks and pension funds participate in foreign bond offerings together with foreign investors. Moreover, secondary markets and active trading make the creditor structure fickle, making even the debtor unsure of who holds its debt (Fang and others, 2023). These dynamics have important implications for the tools that staff has designed to evaluate whether EAC2 is met.

27. **The increasing role of domestic markets and local creditors as a source of public debt financing is translating into an increase in domestic sovereign defaults (Reinhart and Rogoff 2011).** Domestic defaults restructurings are nowadays as frequent as external ones. Erce and others (2024) document that domestic debt restructurings are resolved faster, while forcing similar losses for investors. Growth falters around both domestic and external restructurings despite they can occur in markedly different macro-financial environments.

28. **A large policy literature has focused on the IMF's Debt Sustainability Criterion.** Schadler (2013) notes that the systemic exemption helped Ireland and Portugal, but its use was not evenhanded.[10] While positive on the relevance of the policy, Schadler notes that, by making large official financing packages available to countries where sustainability and market access was very weak, the EAP was not conducive to lastingly resolving existing debt vulnerabilities. Truman (2015a, 2015b) argues that EAC2 proved too rigid the first time that had to confront a debt restructuring (Greece). Kruger and others (2016) concerns that the IMF's lack of analytical independence risks limiting its ability to fulfil its role.[11] Hagan (2020) confirms that a central problem of the criterion is that, under pressure, staff often resorts to heroic assumptions to avoid debt restructuring.[12] Relatedly, Gelpern (2016) and Guzmán and Stiglitz (2024), among others, worry about analytical and politically-driven biases in the production of the DSA in strategically important cases. These commentators note that analytical gymnastics threaten the IMF's DSA credibility, and cast doubt on its evenhandedness.

Market Access

29. **Although market access and debt sustainability are related, they are also distinct.** Debt sustainability relates to the debt trajectory and to whether the primary fiscal balance required to achieve a downward adjustment in debt is achievable. Market access reflects a country's ability to raise funds at acceptable terms. This ability affects debt sustainability. Likewise, the sustainability of a country's debt can influence whether it has market access. While lack of debt sustainability normally triggers loss of market access, a temporary loss of market access need not mean an unsustainable debt (Guscina and others, 2017; IMF, 2022a).

30. **The literature offers a diversity of approaches to assess market access conditions by sovereign borrowers.** Fostel and Kaminsky (2007) and Cruces and Trebesch (2013) examine market access by looking at sovereign bond issuances and public syndicated bank loans. Guscina and others (2014) analyze countries that are first-time issuers in international markets. Guscina and others (2017) and Zigraiova and Erce (2024) search potential leading indicators of market

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[10] In contrast, Taylor (2015) argues the exemption had failed to prevent contagion and should be removed.

[11] In their view, if the "IMF is to fulfill its mandate of promoting a stable and functional international monetary system, its economic analysis and advice should be insulated from political pressures, remaining frank, competent and unbiased."

[12] Krahnke (2023) shows that the IMF's ability to strike a balance between financing and adjustment and remain catalytic is impaired for larger loans.

access tensions among high frequency indicators coming from primary and secondary markets for sovereign bonds and offer methodological frameworks for identifying emerging risks to market access.[13]

31. **A sovereign can lose market access for a variety of reasons.** It can lose it if bond investors doubt the authorities' macroeconomic policies, or if they fear the authorities may not be willing to repay (Gelos and others, 2004, De Broeck and Guscina, 2011). Access can also be lost due to a spike in global risk aversion or because of contagion (Guscina and others, 2017). Sovereign losses of market access are often accompanied by capital flight and exchange rate pressures. Ohnsorge and Pallan (2023) argue that when faced with an increasingly difficult access to external markets, some countries may resort to replacing it with domestic borrowing. While this may reduce default risk, it can lead to higher borrowing cost and a crowding out of private sector investment (Broner and others, 2022).

32. **Inadequately designed debt restructuring can precipitate further capital flight.[14]** For example, if debt relief comes too little, investors may expect further adjustments down the road, with negative implications for market access (Jonasson and Papaioannou, 2018; Erce, 2021). According to Cruces and Trebesch (2013), unilateral or coercive approaches, such as voluntary accumulating missed payments, lead to delayed market access. While sovereigns are likely to have a faster return to capital markets following a debt restructuring without principal reductions than after operations that result in principal debt reduction, such return of access can prove fickle (Jonasson and Papaioannou, 2018; Erce, 2021).

33. **The investor base plays a key role in determining the time of market access (Hong Kong Monetary Authority, 2020).** Fang and others (2023) study the impact of investor composition on sovereign bond markets and show that sovereigns are vulnerable to losing non-bank investors, who appears most responsive to the yield. The importance of a stable investor base is also highlighted in Jonasson and Papaioannou (2018), who argue that sound public debt management policies during sovereign debt distress periods are key to efficiently resolving a debt crisis and regaining market access.

34. **Regaining (partial) market access depends on domestic and global conditions, as well as on characteristics of the restructuring process.** Defaults imposing larger haircuts, trigger longer periods of market exclusion and lead to market re-access at higher rates (Richmond and Dias, 2010). Domestic debt restructuring has a milder impact on foreign capital flows (Erce and Mallucci, 2018).

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[13] Zigraiova and Erce (2024) shows that the preferences of the Board for missing crises versus false alarms should inform the construction of any early warning system for risks to sustainability or market access.

[14] Jonasson and Papaioannou (2018) review the key issues surrounding sovereign debt management during fiscal distress.

35. **The empirical literature on the catalytic effect of IMF programs is, at best, mixed.** Catalytic effects can be positive, but that is dependent on countries' policies and fundamentals. Catalytic effects are larger where fundamentals and policies are better (IMF, 2009a). Krahnke (2023) shows that, beyond some levels, additional IMF financing generates no catalytic effects.[15] These findings are in line with a theoretical literature that models IMF loans and self-fulfilling debt crises (Zwart, 2008). Kogan and others (2024) explore the impact of IMF programs on access to international capital markets. They find evidence that the reforms implemented under IMF programs matter more for the catalytic effect than the IMF's role as a liquidity provider.

36. **Corsetti and others (2018; 2020) look at the linkages between debt sustainability, market access and official lending.** Using the experience of Ireland and Portugal during the euro area crisis, these papers analyze the extent to which the terms of official loans, size, maturity, and interest rate, affect market access and debt sustainability. These papers show that official loans can be designed to reduce rollover risk and facilitate market access, thereby supporting debt sustainability. Relatedly, Deutsche Bundesbank (2022) notes that high levels of IMF lending can limit its catalytic effect and concerns that a weak implementation of EAC2 may lead to an anticatalytic situation.

37. **The IMF has an official definition of market access that gives no explicit role to debt markets and focuses on whether a country has access to non-resident resources.** A member is said to have market access when it "is able to tap international capital on a sustained basis through the issuance of securities across a range of maturities, regardless of the currency denomination of the instruments, at reasonable interest rates" (IMF, 2015a). This definition, which hinges on the international character of the financiers of the governments, could be read as implying that infrequent issuers are constantly suffering a lack of market access.[16]

III. DESIGN OF EXCEPTIONAL ACCESS CRITERION 2 AND 3

A. Debt Sustainability Criterion (EAC2)

A Historical Overview

38. **The EAP was set with a view to "help shape expectations of members and markets, provide a benchmark for difficult decisions regarding program design and access, safeguard Fund resources, and ensure uniformity of treatment of members" (IMF, 2002a).**

39. **EAC2 is intended to support these objectives in, at least, two important ways.** First, it provides clarity on how the sustainability of public debt affects IMF lending decisions and on when EA is not permissible without a restructuring of private claims. Second, it is a safeguard to

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[15] Saravia (2010) and Kogan and others (2024) discuss the IMF preferred creditor status and its effect market access.

[16] Guscina and others (2017) draw the distinction between being forced out of the market versus voluntary lack of issuance.

ensure judgments are made carefully and the risks involved are appropriately weighted, with a view to design a successful program, while preserving the Fund's financial position and safeguarding its resources. EAC2, while present in both normal and EA programs, is more stringent for EA programs.[17]

40. **EAC2, when first adopted, read as follows: "A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable."** At the time, Directors considered that EA would not in general be combined with debt restructuring. The criterion remained unchanged until 2009. At that time, the policy had come to be seen as cumbersome and lacking evenhandedness. While the implementation of the criteria had proved challenging in several situations, the policy had not faced any truly problematic application.[18]

41. **Following extensive analysis, various changes to EAC2 were introduced in 2009.** The criterion was to always be applied on a forward-looking way, considering programmed fiscal policy adjustments, and explicit commitments by the member to restructure public liabilities (IMF, 2008; 2009a; 2009b).[19] The Board discussion of the reform also acknowledged that IMF support should also cover budget financing gaps and deposit runs in foreign and domestic currency (IMF, 2009b).

42. **The 2009 reform helped clarify the perimeter of the DSA.** Debt sustainability refers only to public debt, domestic and external, and not to external private. This clarification was grounded on the need of the IMF to adapt to a changing financial landscape, where domestic and external transactions were increasingly blurred (IMF, 2009a).

43. **In 2010, in the context of the Greek request for EA, EAC2 was reformed to introduce a systemic exemption.** This exemption allowed EA even when debt was not sustainable with high probability if it was assessed that a restructuring may trigger systemic spillovers. This was a very controversial move because seemed to provide differential treatment to a Euro Area member that was not available to previous EA cases (Gelpern, 2016; de las Casas, 2021).[20]

44. **The need to resort to the systemic exemption showed that EAC2 was too inflexible.** It focused too much on targeting a specific debt level, and required debt restructuring in situations where that was not necessarily the only or the best option, and this could impose substantial costs to members.

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[17] Until 2010, EA programs could only be approved without requesting a debt restructuring if debt was sustainable with high probability. Since 2016, exceptional access (EA) can also be provided when debt is not sustainable with high probability as long as "financing from sources other than the Fund (including any intended debt restructuring), although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources" (IMF, 2016c).

[18] After the reform, all criteria were to be applied to all crises requiring EA. Before, criteria had to be met in capital account crises. For non-capital account crises, criteria were assessed, but did not need to be satisfied.

[19] Before 2009, the forward-looking DSA only applied to non-capital account crises.

[20] The amendment was proposed in the staff report for Greece's SBA request (EBS/10/77) and was not previously discussed with Directors. The amendment was done using the Board discussion's summing up (BUFF/10/56).

45. **These reforms affected the staff's ability to make assessments, but not always positively.** The 2009 reform clarified the application of the criterion, but also posed IMF staff with novel, rather different, analytical questions. Considering future risks to public debt sustainability implies placing the focus on a fiscal gap. While a fiscal gap can be filled using domestic and foreign resources, a balance of payments gap, the traditional target of IMF lending, requires international financing. In countries that source their financing from domestic debt markets, the line between both gaps is blurred. The 2010 reform brought to the surface the shortcomings of the criterion and of the analytical approach used to assess it.[21]

The Current Debt Sustainability Criterion

46. **Following the Global Financial Crisis (GFC) and the euro area crisis, the EA framework came to be seen as excessively rigid.** Some were concerned that the framework could have forced sovereign debt restructurings when there could have been better alternatives. Others worried that the system was unable to deliver rapid debt relief when debts were unsustainable. In reaction, staff began to work on a potential reform of the EA framework. After intense consultations, the last reform to date of EAC2 occurred in 2016 (IMF, 2014; 2015a).

47. **The 2016 reform removed the systemic exemption and provided the Fund with additional policies for situations when a member's debt was sustainable but not with high probability.**[22] The 2016 policy allows the Fund to provide EA even if debt sustainability is in not sustainable with high probability (the so-called "gray zone") when sufficient safeguards for IMF lending exist. These safeguards include co-financing from sources different from the IMF, including the conduct of a (so-called) debt reprofiling: a short maturity extension of privately held debt maturing during the program with no reduction in principal or coupons.

48. **Initially, some considered that a net present value (NPV)-neutral maturity extension (debt reprofiling) would not trigger a rating downgrade to default.** As discussions progressed, it became clear there is no guarantee that a reprofiling operation would not be called a default by rating agencies (IMF, 2016a; 2016b). What matters to the agencies is the distressed character of the operation.[23]

49. **According to the 2016 version of the criterion, when debt is sustainable with high probability, the IMF can provide financing in support of a program that envisages payment of outstanding obligations as they fall due.** These cases would include those where, although

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[21] Some interviewees considered that frequent and complex changes to the policy are making it harder to understand and apply.

[22] Using a criterion based on contagion risks was rejected as inconsistent with uniformity of treatment.

[23] The same legal mechanism of a bond exchange is used in cases of reprofiling. From a rating perspective, both lead to a selective default, as acknowledged in the Fund paper, when done in distress and at non-market conditions. From an accounting perspective, an advantage of reprofiling only exists if an impairment of the asset can be avoided.

a member may have lost market access, there is confidence that the loss is temporary. By contrast, if debt is clearly unsustainable, definitive action to restructure debt and restore debt sustainability with high probability remains the least-cost approach.

50. **When a member's debt is assessed to be sustainable but not with high probability, implementing a definitive debt restructuring could incur unnecessary costs.** In such situations, the Fund can grant EA if the member also receives financing from other sources during the program on a scale and terms such that, even if it does bring debt sustainability with a high probability, it improves debt sustainability and sufficiently enhances safeguards for the Fund. The rationale for enabling lending even if high probability is not restored is that such higher probability will necessarily emerge naturally as the program is successfully implemented and the country recovers (IMF, 2016b).

51. **Reflecting the increased flexibility of the new framework, when debt is sustainable but not with high probability, a range of options are available to meet the policy's requirements.** Where the member retains (and is expected to retain) market access, or where a small volume of private claims falls due during the program, there might be enough private exposure throughout the program so that, if need be, a debt restructuring can be carried out at a later stage. If the member has lost market access and private claims falling due during the program significantly drain resources, a debt reprofiling would be appropriate.[24] The scope of debt to be reprofiled would be determined on a case-by-case basis.

52. **The new framework, in particular the approach to follow in the grey zone, has brought additional technical questions.** It gives market access a key role, even as it remains silent on how to measure it, particularly in domestic markets: **when does a country maintain market access?** Similarly, in its attempt to clearly define what is to be done in the gray zone, the drafting of the policy introduces conditions that are not easy to verify and require an analytical response: **what form of available financing represents a "sufficient enhancement" to IMF safeguards?** What is "sufficient restructurable debt"?

53. **Absent guidance on how to answer these questions, staff has devised two tests**. Initially, staff assessed the ratio of non-senior external public debt to IMF claims. Currently, they use two separate tests: a debt sustainability test and a foreign exchange (FX)-availability test. Both tests, which are discussed in the next section, are implemented using the SRDSF.

54. **In a tail-event case, where a reprofiling of private claims poses unmanageable risks, the IMF can still approve EA without a restructuring.** In this case, what is needed is that official sector partners are willing to provide the necessary financing, on terms sufficiently favorable to improve sustainability and enhance safeguards for Fund resources. The Fund would need

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[24] The wording of the decision makes explicit that reprofiling refers to an extension of maturities falling due during the program, with normally no reduction in principal or coupons.

assurances that the terms could be modified in future if the outlook for debt sustainability were worsen. Absent such assurances, the terms of the financing would need to restore debt sustainability with high probability.

55. **In circumstances where debt is unsustainable, the Fund could proceed based on credible financing commitments.** The terms of the financing provided by official bilateral creditors (as loans with long tenors and concessional rates, grants, or other instruments) would need to restore debt sustainability with high probability.

Technical Analysis and the Role of Judgment

56. The assessment of EAC2 requires using a set of technical tools, the DSA, combined with the application of judgment.

57. **Until 2012, staff used a simple deterministic DSA.** The DSA framework initially included a set of standard indicators of debt and debt service, staffs baseline medium-term projections with clearly presented assumptions, and standard sensitivity tests around the baseline (IMF, 2002a). While such a standardized deterministic approach was useful to ensure the conceptual consistency of the analysis across countries, the framework lacked detail and was unable to provide any kind of probabilistic assessment. As a result, the determination of whether the criterion was being met combined substantial judgment with the application of a simple quantitative framework.

58. **The Fund revised the DSA for market access countries in 2012.** The review responded to shortcomings in identifying fiscal vulnerabilities and assessing risks to debt sustainability against the backdrop of increased concerns over fiscal policy and public debt sustainability in advanced economies (IMF, 2013b). The new framework (MAC DSA) emphasized the importance of the structure of debt to assess prospects for market access and thus debt sustainability. It included various new features. In contrast to the previous framework, the MAC DSA was a risk-based approach. It offered an expanded set of standard tools to assess the realism of baseline assumptions.[25] To acknowledge the different debt-carrying capacity of countries, the framework had high-risk benchmarks for debt and gross financing needs (GFN) levels that differed between emerging and advanced economies.

59. **The framework included a basic DSA, based on a five-year projection horizon, which was a streamlined version of the previous DSA, applied to low-risk countries.** Countries with current or projected debt ratios above 60 (50) percent if classified as an advanced (emerging) country, with current or projected gross financing needs above 15 (10) percent, or those seeking EA, were classified as "higher scrutiny." For these cases, the DSA included fan charts showing the distribution of risks around the baseline, a heat map summarizing key risks to

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[25] A first analytical tool presented a forecast track-record for growth, primary balance, and inflation. The second tool assessed the realism of projected fiscal adjustments based on the cross-country historical experience.

debt sustainability, and a write-up including country-specific considerations. The write-up was expected to discuss risk mitigating and or amplifying factors, the realism of the baseline, debt profile risks, macro-fiscal risks, and contingent liabilities. In cases where debt was unsustainable, staff could discuss estimates of maximum sustainable primary balances as well as estimates of maximum sustainable debt ranges**.**

60. **MAC DSA put greater focus on debt flows and debt profile indicators.** It gauged risks from the debt profile by comparing a set of indicators to early warning benchmarks derived from the signal approach. The framework looked at: bond yield spreads or Emerging Markets Bond Index (EMBI) global spreads, external financing requirements (percent of GDP), public debt held by non-residents (share of total), public debt in foreign currency (share of total), and annual change in the share of short-term public debt at original maturity. According to the guidelines, if a country faced risks to debt sustainability from the debt profile, staff should scrutinize the financing assumptions underlying the baseline scenario.[26]

61. **Judgment could downgrade countries to high scrutiny even if they did not breach the high-risk thresholds.** To help make this determination, staff should assess vulnerabilities that may arise from: (i) large projected fiscal adjustment; (ii) volatile growth; (iii) large spreads; (iv) high external financing requirements; (v) a large share of debt held by non-residents; (vi) a large share of foreign currency denominated debt; or (vii) a rapid increase in short-term debt (IMF, 2013b).[27]

62. **The MAC DSA framework could not provide the guidance required by the EA policy**. Since 2010, the EA policy requires staff to classify public debt into one of three: unsustainable (red zone), sustainable with high probability (green zone), or sustainable but not with high probability (gray zone). While the MAC DSA analytical tool helped to communicate risks to debt sustainability in a more objective way, it stopped short of mapping such risks into one of the three probability zones.[28] Staff used the guidance provided by the risk-based assessment and its judgment to come up with a high-probability determination.

63. **To bridge the gap, staff used an internal tool to assign probabilities to debt sustainability.** In the interviews, there was some sense that the HP-tool was a "black box" whose inner working is not widely accessible across staff. To cover the gap between the MAC DSA outcome and the requirements of the three-zone EA policy, in 2015 staff introduced an internal

[26] The MAC DSA offered limited guidance on the role of the liabilities of Central Banks. According to the MAC DSA Guidelines (IMF, 2013b), quasi-fiscal activities by Central Banks should be consolidated into public debt in the DSA.

[27] Remarkably, foreign holdings of public debt can be both a source of risk and an assurance for IMF lending.

[28] The framework provided no guidance on how the various indicators should be weighted in the final assessment.

tool, the HP-tool, which classified in countries in specific sustainability zones.[29] The HP-tool used three complementary approaches. First, a decision tree that uses a simple algorithm to assess debt vulnerabilities by focusing on the realism of assumptions, level and trend of public debt, and level of gross financing needs. Second, a "risk index" based on the noise-to-signal approach, where signals from different debt burden and liquidity indicators are weighed based on their predictive power. Finally, a probit model that estimates the probability of default. Since its introduction, the HP-tool was extensively used by staff (with a threshold of 80 percent) to complement the MAC DSA. Prior to this, there was no systematic guidance on what specific number should be taken as the frontier between high and low probabilities.[30]

64. **The MAC DSA was reviewed in 2020.** The review noted that the framework had various important shortcomings, including: (i) an inadequate data coverage, (ii) baseline optimism, (iii) a mixed capacity to predict sovereign stress, (iv) an application of judgement that failed to suppress the noise generated by the lack of sharper tools, and (v) an unclear bottom-line assessment (IMF, 2020b).

65. **To overcome these problems, the SRDSF replaced MAC DSA in 2022.** The SDRSF provides two outputs: a sovereign risk assessment and a DSA. These assessments aim to capture vulnerability to sovereign stress events, risks that debt could become unsustainable, and prospects for stabilizing the debt under the baseline. Box 1 below offers additional details, as well as a preliminary evaluation of the framework.

66. **Critical to the correct assessment of EAC2 (and of EAC3) is the strength and implementation of the program.** The EAC2/EAC3 assessments assume that programs are implemented as agreed. As a result, the accuracy of the assessments is also governed by EAC4 considerations. However, as discussed in Bal Gündüz (2024), EAC4 assessments are currently "empty," relying almost entirely on judgment.[31]

67. **Access levels and debt restructuring decisions are related.** IMF programs entail finding the correct combination of fiscal policy adjustment, financing and (if needed) debt restructuring. If macroeconomic projections and DSAs are optimistic, Fund access can become a substitute for necessary debt restructuring.

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[29] Countries could be ranked as sustainable with HP, sustainable but not with HP or unsustainable. The tool could also require further analysis when results were inconclusive. The tool, endorsed by management in 2015, is not mentioned on program documents.

[30] Jordan and in Pakistan would have had a different assessment of EAC2 if the HP-tool were available (IMF, 2015).

[31] The EAC2 assessment has compensated for this by introducing realism tools. According to staff, these realism tools tend to be brushed aside. This poses the technical assessment with credibility problems.

Box 1. The Sovereign Risk and Debt Sustainability Framework

The SRDSF methodology is based on risk assessments at three different horizons: near-term, based on a multivariate (logit) model predicting sovereign stress over 1–2 years; medium-term (up to 5 years) consisting of (i) a debt fan chart module to assess prospects for debt stabilization, (ii) a module for more granular analysis of rollover risks, and (iii) triggered stress-tests to model specific risks (e.g. natural disasters, bank stress); and optional tools to analyze long-term risks (beyond 5 years).[1]

The SRDSF uses charts to illustrate a larger set of potential vulnerabilities arising from the debt structure (maturity, currency, residence of holder and governing law). The framework contains a large set of realism checks, including on forecasts of debt drivers, output gaps, changes in debt, fiscal adjustment optimism, fiscal multipliers, REER projections, growth projections, and financing terms.

In Fund-supported programs, the SRDSF helps determine if the stress can be resolved using Fund lending and adjustment, or if other exceptional measures (including debt restructuring) are needed. In program cases, the output of these tools also includes a single mechanical signal, and a final assessment of whether debt is sustainable with a high probability, sustainable but not with high probability, or unsustainable. The staff can use the gross financing needs (GFN) module and the fan charts of the SRDSF to perform the Debt Sustainability and FX availability tests required to obtain EA when in the gray zone. When a debt restructuring is needed, the SRDSF can inform the overall envelope of debt relief and help staff set targets for the restructuring outcome.

The GFN module assesses countries' ability to manage financing needs. It analyzes how large the demand for additional financing might be in case of shocks and whether domestic financiers can increase their government exposures in case foreign inflows to the government dry out. The SRDSF embeds a latent external debt limit through the combination of the GFN stress test and the debt fan chart shocks.

To minimize risks to the provision of unbiased DSA, the SDRSF sets clearer and stricter rules to the use of judgement. The guidelines contain detailed instructions regarding when and how staff can rely on judgement, either because a mechanical signal is counterintuitive or because the standard tools do not provide a mechanical signal. The SRDSF guidance lists 6 non-exhaustive factors to consider when applying judgment.

Did the move to the SRDSF framework improve the Fund's ability to make assessments?

- It aligns better with the probabilistic three-zone EA framework, and forces staff to think more about the sources of financing and about the role of domestic savings.
- The multiple realism checks prevent the setting of too unrealistic baselines in a mechanical fashion, although, according to interviewees, some are not useful.[2]
- The new a realism tool focused on market financing assumptions that use historical evidence to inform the application of judgement is an important addition. Unfortunately, it is ordered as the last of many and there is a risk that the check becomes a tick-the-box exercise. Given its key importance it, it should be extended to also consider domestic debt markets and should be given a more prominent role in the analysis.[3]
- Under the SRDSF, the sustainability assessment is still a matter of staff judgment, albeit better anchored in the analytical framework.
- The SRDSF has a systematic approach to the role of Central Bank liabilities within the DSA which was absent from the MAC DSA. In Argentina (2018) the SRDSF may have provided a stronger earlier signal of unsustainability.[4]
- The GFN module is a first step in the direction of understanding market access and roll-over risks, but more needs to be done. In particular, the framework could (i) use existing evidence to link roll-over shocks to macro-financial conditions in a realistic way, (ii) allow for differences on GFN carrying capacity depending on whether financing is obtained from domestic or international debt markets (for example, domestic debt often has shorter maturity but it is also easier to roll over), and (iii) acknowledge that absorption capacity by resident investors of additional public debt goes beyond what amount of public debt domestic banks have historically hold.

Sources: IMF (2021; 2022a); author's views.

[1] Near- and medium-term tools follow three steps at each horizon: (i) Identify relevant stress drivers and mitigating factors, (ii) combine the indicators into a continuous composite index, and (iii) divide the index into three risk zones (low, moderate, high) based on two cutoffs corresponding to probabilities of missed crises and false alarms.

[2] Various interviewees doubted that IMF staff can consistently estimate output gaps for all its members.

[3] SRDSF uses the so-called Laubach rule to calibrate the link interest rates and debt stocks. A host of more recent evidence shows that there are many factors affecting the strength of this relation

[4] Through this new procedure to categorize the debt perimeter, the LEBACs (central bank sterilization instruments) would have been considered from the beginning, potentially tilting the balance towards the red zone.

Debt Operations Within EAC2

68. **Gray-zone and red-zone debt operations differ**. When debt is considered unsustainable, a debt restructuring that brings debt back to the green-zone is required. In contrast, where there are uncertainties regarding the member's sustainability (the gray zone), the debt operation does not need to upgrade the sustainability rating, debt can remain sustainable but not with high probability and meet the assessment of EAC2.[32]

69. **A debt reprofiling implies an extension of maturities with no haircut.** The length of the extension will depend, among other factors, on the pre-existing debt structure. Conversely, for members that need more significant debt relief, the restructuring may need to involve a principal haircut.

70. **Various dimensions affect the decision of whether to include a debt instrument in a reprofiling.** According to the guidelines in IMF (2015a), a first factor to consider is the maturity of debt. Where most maturities fall due during the program period, reprofiling this debt could be sufficient. Instead, if significant maturities fall due immediately after the program period, such debt may also need to be included.[33] Simple reprofiling operations may simply displace a few years forward a wall of redemptions, posing doubts on the ability of the operation to credibly solve the problem.

71. **Programs requiring a debt restructuring must place strong policy emphasis on financial stability.** While reprofiling domestic law-governed debt could be easier since it may be achievable through changes to domestic legislation, involving sovereign holdings of financial institutions in the operation may have adverse implications for financial stability and worsen the prospect of restoring sovereign debt sustainability. When debt is denominated in local currencies or held domestically, moral suasion and financial repression may represent alternative ways of securing refinancing. This implies country teams should carefully evaluate the implications of a debt restructuring for the economy (macro effects and effects on the health of the domestic financial system), and compare them with those of the alternatives (for example, financial repression is known to reduce long-term growth).

72. **If debt is unsustainable, the SRDSF can be used to set appropriate targets for debt relief.** According to the SRDSF guidance note, the GFN module can be used to verify if the financing needs post-restructuring are manageable under adverse circumstances. Such guidance was absent from the MAC DSA.

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[32] Debt operations in the gray zone are allowed to leave countries in the gray zone on the expectation that program implementation will naturally lead debt to the green zone.

[33] There are reasons to exclude treasury bills but, if the amount is too large, rollover arrangements may be necessary.

73. **The emergence of new private and official bilateral creditors has implications for debt operations.** The existence of collateralized debts and of official creditors, such as India or China, who are not part of the Paris Club, implies that the time-tested mechanisms that the IMF has traditionally used to elicit debt restructuring may not be sufficient (IEO, 2021; IMF, 2024).

Interaction with Other IMF Policies

74. **Financing assurances are germane to the observance of EAC2.** Under the Fund's financing assurances policy (FAP), the Fund must be satisfied that program financing is adequate to fill financing gaps during the program period to ensure external viability, as well as to ensure that the member is able to repay the Fund during the post-program period (IMF, 2023). The FAP requires Fund-supported programs to be fully financed, meaning operationally that a program must have firm financing commitments from non-Fund creditors for the forthcoming 12 months and strong prospects thereafter. FAP imposes specific conditions on the form that assurances can take, including regarding the financing envisaged through a debt restructuring operation. When a contribution from private creditors is required to restore debt sustainability, assurances are derived from a staff's judgment that a credible process for debt restructuring that will deliver relief in line with program requirements is underway.

75. **The existence of external arrears means that the program must present reinforced assurances, as required by the Lending into Arrears (LiA) policy or the Lending into Official Arrears (LiOA) policy**. The arrears policies are underpinned by criteria designed to restore debt sustainability (IMF, 2022b).[34]

76. **In April 2024, the Executive Board approved a set of reforms to promote the IMF's capacity to support countries undertaking debt restructuring (IMF, 2024).** This was motivated by recent IMF-supported programs involving debt restructurings that experienced significant delays until the necessary official creditor assurances were provided, preventing the IMF from lending. The reform sets new LiOA procedures, under which "enhanced safeguards approach" would apply to EA programs. The enhanced safeguards would include a direct commitment to the Fund by a "sufficient set of creditors" about their restructuring intentions. For official creditors, the reforms have shifted to a "credible official creditor process" assessment (in lieu of a specific and credible assurance). Directors also endorsed a reform so that, in pre-emptive restructuring cases, financing assurances would only be sought from a "sufficient set" of creditors.

77. **The Debt Limits Policy establishes the framework for using quantitative conditionality to address the debt vulnerabilities and debt data disclosure requirements**. In the case of EA arrangements, there is a transparency requirement that information about the debt-holder structure should be made public. Such information, while subject to changes through secondary market trading, is key to the application of EAC2, which necessitates a granular understanding of the investor base on sovereign debt.

[34] IMF (2022b), p. 16, paragraph 13 describes how debt sustainability, arrears, and financing assurances interact.

B. Design of the Market Access Criterion (EAC3)

A Historical Overview

78. **EAC3, when adopted in 2002, read as follows**: "The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge."

79. **The criterion was consistent with the Prague framework, Fund financing should be limited to cases where the restoration of market access on terms consistent with medium-term external sustainability is realistic in a reasonable timeframe**. The criterion was intended to ensure that Fund financing was offered temporarily and was used to recover market access and return to external sustainability. The design of the criterion was informed by the experience gained in earlier EA cases, beginning with Mexico's SBA in 1995 (IMF, 2002b).

80. **EAC3 was modified in 2009 to recognize first-time issuers as being eligible for EA.** Until then, the criterion focused on countries that had previous access to capital markets and had lost such access. The goal of this change was to create the option to grant of EA to a member with no access to capital markets (for whom "regaining" access did not apply), if circumstances warranted it, while still considering the capacity to repay the IMF.

81. **In a key change for subsequent debates, the reference to the bridge was removed**.[35] The modification also entailed the deletion of the word "good" before "prospects." Following these changes, the criterion came to read as follows "The member has prospects of *gaining* or regaining access to private capital markets within the timeframe when Fund resources are outstanding."

82. **While the 2010 reform did not touch the criterion, alternative drafts were discussed.** At the time, an argument was made that the 2009 removal of the reference to IMF financing being a bridge, as well as the removal of the word good before prospects, had the "intention" to modify the standard set by the original criterion to give the member a longer horizon (until the end of the period Fund's credit remains outstanding) to regain access to markets. In the end, an understanding emerged that despite the deletion of the reference to the "bridge financing" by the Fund, the market access criterion still had to be interpreted as requiring that members have prospects to access capital markets by the time they exit Fund support.[36] This implies that the country must be able obtain the necessary financing to start repaying the Fund and continue to do so until the Fund is fully repaid.

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[35] In the background to the original criteria was the Executive Board's unease with high access programs without sufficient Board involvement. The Board wanted to see the Fund's resources used as a "bridge" to future private sector credit.

[36] The IMF's Legal Department (LEG) issued an opinion, according to which there was no ground to argue that the 2009 modification of criterion implied a change of the standard set in 2002. The assessment argued that neither staff reports nor in the Executive Board decisions adopted suggest any intention to modify the criterion.

83. **Each wave of reform had the objective of improving the ability of the IMF to serve its members, and the ability of staff to make evenhanded assessments using the best knowledge and information available**. The 2009 reform, which enabled access to first time issuers and included domestic public debt explicitly within the framework, presented staff with a very significant analytical challenge. Including domestic public debt and excluding external private debt implied a substantial paradigm change in considering whether a country could regain market access as required by the criterion.[37]

The Current Market Access Criterion

84. Since 2016, EAC3 reads as follows "The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund."

85. **The goal of the 2016 amendments to EAC3 was to "remove unintended ambiguity regarding the timeframe by which the member is expected to have regained market access."** This change seemed necessary since the 2009 removal of the earlier mention to IMF financing being a bridge had been used to argue that the objective of the criterion had changed. The new drafting was seen as better able to ensure that market access occurs within a time frame and on a scale that safeguards Fund resources. IMF (2016c) clarifies that fulfillment of EAC3 requires that market access be regained by the time repurchases start. It also clarified that forward-looking commitments by official creditors, even if they remove the need to access capital markets, do not mute the need to fulfil EAC3.

Analytics and the Use of Judgment

86. **The framework lacks a systematic modelling of current and prospective market access and has no agreed set of analytical indicators to assess whether the criterion is met**. IMF (2015) provided an evaluation of how well the identified indicators predict loss of market access by applying the signaling approach and risk zone classification approach on a sample of 45 countries, but there is no other substantial guidance.

87. **According to the guidance in IMF (2015a), judgement about prospective market access needs to be analytically grounded.** Staff should consider adverse deviations in recent primary bond issuance practices (volumes, frequency, maturity, and financing terms), bond rollover rates and participation of non-resident investors. Additional indicators to monitor include credit ratings and changes in the currency composition. Staff should assess whether these indicators have deteriorated significantly relative to historical norms (IMF, 2015a; 2015b).

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[37] The reform moved the focus away from the country's external gap and towards the government's fiscal gap.

88. **Available advice refers only to international capital markets.** Guscina and others (2017) argue that domestic debt issuance (in domestic or foreign currency) constitutes ability to tap international capital and thus market access if nonresident investors participation is significant. Hence, in assessing whether domestic issuance represents true market access, IMF staff must consider country-specific characteristics and exercise judgment.

89. **The lack of more granular guidance reflects conflicting views among IMF departments.** Up until 2010 it was widely understood in the Fund that "access to private capital markets" referred to the member's ability to access (borrow) in foreign currency from international private capital markets; as such access would enable the country to secure the FX resources to repay the IMF. The 2010 staff report on the modification of the EA criteria, triggered by lending to Euro Area members, deliberately deleted the word "international" and omitted references to foreign currency borrowing. The (implicit) arguments for doing so were that: (i) EU members could borrow in domestic currency (the Euro) to repay the Fund and (ii) that the distinction between international and local capital markets was redundant for EU members. The same logic was maintained in the 2016 revisions of the EA criteria. This was done even though the accompanying Monetary and Capital Markets Department (MCM) background paper on "access to capital markets" built on work done in the Fund in the early 2000s on accessing international private capital markets. To ease the tension between these two concepts, the background paper to the 2016 EA revision put forward the argument that domestic debt issuance "could be construed as market access when non-residents could purchase the domestic debt." That claim, however, is conceptually flawed and not relevant for the purpose of repaying the Fund.

90. **The policy implies an unrealistic binary classification.** To assess EAC3, IMF staff is required to come to a "yes or no" determination of whether a country will or will not have market access in time and form to pay back the IMF. This need to apply a black or white criterion is in contrast with the multifaceted and granular nature of market access.

The Role of Debt Operations and Other IMF Policies

91. **The introduction of the debt reprofiling option can have implications for market access.** To the extent that the 2016 reform limits the ability of the IMF to provide financing in the gray zone vis-à-vis the systemic exemption, markets could be less supportive of countries which ask the IMF for EA, as investors would assign a higher probability to an event of debt restructuring being required as a condition for the participation of the IMF.[38]

92. **Program financing includes assumptions regarding a member's expected relief coming from any envisaged debt restructuring operation.** Under the Fund's financing assurances policy, the Fund must be satisfied that program financing is adequate to fill financing

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[38] While, in theory, reprofiling can make debt more sustainable, partly offsetting impact on market access, the evidence presented in this chapter is not supportive of this beneficial effect.

gaps during the program period to ensure that the member is able to repay the Fund during the post-program period. The only situations in which a program relies on assurances related to private creditors is when the Lending into Arrears (LIA) policy applies or when a country is conducting a pre-default debt restructuring. The policy on financing assurances does not apply to assurances about current or prospective market access.

93. **Market access considerations are important when determining whether the debt perimeter and restructuring strategy pursued by the authorities meet the requirements of the program.** IMF (2015a) notes that excluding resident holders of sovereign debt could have perverse consequences for future market access and reintegration into international capital markets.

IV. IMPLEMENTATION OF THE EXCEPTIONAL ACCESS CRITERIA

A. Debt Sustainability Criterion

94. **Until the global financial crisis, program implementation paid little attention to EAC2.** Program documents make little mention of EAC2, which was only evaluated when the program was signed and not at each subsequent review.[39] This is confirmed by a review of program documents for Latvia's and Pakistan's 2008 SBAs.

95. **In this earlier period, assessments were analytically very weak. They focused on whether debt could reach a given target level within a given timeframe under a few stress-scenarios.** Latvia debt was seen as sustainable with a high probability because its level was low. In Pakistan, high probability emerged from the fact that debt would decline over the medium term even in some stress scenarios. In Jordan (2012) and Greece (2012), the programs were also approved using the old DSA. In Jordan, debt was expected to decrease below 80 percent in 2017, and in Greece below 120 percent by 2020. Both programs started implementing the MAC DSA in later reviews, which, according to staff involved in the programs, improved their ability to assess the criterion.

96. **The criterion was modified to approve the 2010 Greece SBA, and was used without further justification in the program documents during the 2012 Greece EFF. This path of action raised concerns of lacking evenhandedness.** In 2010, staff at the lead review department of the IMF who doubted the feasibility of the programmed policies were unwilling to sign off on the proposition of a high probability that public debt was sustainable in the medium term. The report therefore proposed a modification of the second criterion. Subsequently, the systemic exemption was used during the third and fourth reviews of the 2012 EFF, but no justification was provided.[40] According to interviewees, once the debt restructuring was carried, there was no clear source of systemic spillovers that justified using the exemption.

[39] While since 2002, if the EAP applied, the criteria needed to be met at arrangement approval and all subsequent reviews, this has only been more systematically and explicitly done in staff reports since the mid-2000s.

[40] The systemic exemption was also invoked in the Portuguese and Irish EFF programs signed during the euro crisis.

97. **In Ukraine's 2014 and 2015 programs, where staff relied on the MAC DSA, the application was straightforward.** In 2014, given the assumption that the armed conflict would be shortlived, debt was expected to fall below the high scrutiny threshold (70 percent). Once that assumption proved inaccurate, the program transformed in the 2015 EFF, for which the application of the criterion was straightforward, given that Ukrainian debt was, at that point, classified as unsustainable. The evaluation in Ukraine in 2015 was explicit about the fact that financing needs would go below the high scrutiny threshold.

98. **The revisions introduced in 2016 have led staff to articulate EAC2 when debt is sustainable but not with high probability around three market access questions.** Is there market access? Does financing from other external sources sufficiently enhance safeguards for the IMF? Is sufficient restructurable external debt available to safeguard IMF resources?

99. **In Ecuador, coming out from a debt restructuring, the assessment of the criterion was uncontroversial.** Following the debt restructuring agreement Ecuador reached with its private creditors, IMF staff ran a DSA analysis which showed that, conditional on a successful debt operation and on the implementation of the program, Ecuador's debt was sustainable with high probability.

100. **In contrast, in Argentina in 2018 and in Egypt in 2020 the assessment of these questions, which led to the determination of debt as being sustainable but not with high probability, involved carefully balanced assessments.** In Argentina—the first "gray zone" case—the "sustainable but not with high probability" assessment hinged on the fact that the government continued to have some form of market access. In Egypt, EAC2 was assessed to be met because market access was retained and the rollover of external debt liabilities from official bilateral creditors was secured.

101. **Because in both cases market access was deemed to be retained, EA could be made available if the countries maintained sufficient restructurable debt to safeguard IMF resources.** The question was answered by comparing the volume of non-senior FX claims to the peak exposure to the IMF. Remarkably, the minimum ratio of non-senior claims to IMF exposure was calculated in a different way for Argentina and for Egypt. In Argentina, non-senior claims referred to privately held FX debt (external and domestic), and the program required a cover ratio of two to one.[41] In Egypt (2020), non-senior debt included FX external debt by both private and bilateral official creditors. In the Egyptian case, informed by the problems suffered in Argentina, staff required a ratio of three to one (which included the required rollover of official deposits at the Central Bank of Egypt).

[41] As external private debt was replaced by official and domestic debt, the ratio fell to 1.5 to 1 in later reviews.

102. **The ad hoc approach followed in Argentina and Egypt had flaws.** First, it ignored whether after "a more definitive debt restructuring" the member would have enough reserves to repay the Fund. Second, the use of different debt perimeters and ratios to IMF peak credit in Argentina and Egypt raised concerns regarding evenhandedness. Finally, it gave no consistent role to domestic creditors and local currency debt, neither as a drain of resources nor as a source of financing for future repurchases.

103. **The new practice designed by the staff addresses the first and second concerns but leaves the last one unattended.** Going forward, to evaluate whether EAC2 is met if there is no evidence that debt is sustainable with high probability, staff will use the SRDSF to implement two separate tests: the Debt Sustainability (DS) test and the FX-availability (FXA) test. These tests help staff formalize two notions. First, using the DS test, staff can assess whether there is sufficient exposure to conduct a later debt operation which keeps the country in the gray zone. Second, using the FXA test, staff assesses whether there are sufficient FX resources, including by considering the absorption capacity of domestic banks. These two tests are performed by applying the SRDSF's debt fan chart and GFN module.[42]

104. **The DS and FXA tests should consider foreign debt holdings both overseas and locally, as well as external debt held by residents.** Not including domestic instruments held externally underestimates external debt and its potential to provide debt relief. Analogously, domestic sources of financing could be considered more carefully. The tests assume that financing in local currency or from domestic sources offers a weaker source of restructurable debt than external financing.[43] While financial stability considerations are paramount, domestic debt restructuring should not be off the table. Another potential issue with the application of both DS and FXA tests is their reliance on a snapshot of cross-border ownership that, where secondary markets are active, can change rapidly.

105. **Once an evaluation is done at program approval, it seldom changes in subsequent reviews.** Argentina and Jordan exemplify this dynamic. In both cases, doubts grew as the program evolved. Still, the assessments remained unchanged. Notwithstanding these two cases, experience also shows that changes can be done. This was the case in Greece in 2013, right after the DSA methodology was updated, and in Ukraine in 2014, where assessments were changed even though that meant the programs would be interrupted. Also, in Ukraine in 2015 and Ecuador in 2020, the debt operations removed uncertainty, allowing the analysis to deliver clear guidance.

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[42] These comments are based on a revision of the application of the policy in Egypt (Request of 2023 EFF, pps. 53 and 54) and Argentina (Request of 2022 EFF, pp. 8, supplementary material).

[43] A symmetric treatment would be premised in that government borrowing in local currencies can be turned into FX to repay the IMF. But this presupposes that either there is a deep FX market or that the central bank has enough international reserves, which for a substantial number of countries is doubtful to hold during crises.

Analytics and Judgment

106. **There is evidence that staff predicts debt dynamics more accurately during EA programs.** This finding offers some positive indication of the higher evidentiary standards that should accompany EA. Box 2 below analyses the drivers of debt projection errors. The results show that negative debt surprises are more prevalent in normal access programs than in EA ones. Debt outturns during EA programs are not significantly above projections. In EA programs, the major drivers of deviations for debt dynamics come from an underestimation of the impact of the primary balance and of the exchange rate. The negative effect on debt of the worse-than-projected behavior of these two drivers gets compensated by an overestimation of the effect of real interest rates.

107. **The degree of sophistication of the analysis evolved along with the DSA.** Until the arrival of the MAC DSA in 2012, staff's analysis, somehow arbitrarily, determined a debt level to be achieved. These earlier analyses did not look at gross financing needs nor offered any probabilistic assessment. Back then, sustainability was assessed against the expectations of debt stabilizing. As a result, fulfillment of EAC2 was purely judgmental, based on notions such as the debt stock should reach some specific level in a specific year. This was the experience in Greece, Jordan, Pakistan and Latvia. According to staff, the analysis of debt dynamics under that old framework was weak and often was taken to be a box-ticking exercise. Interviewees noted that the old DSA often failed to properly acknowledge the role of contingent liabilities.

108. **The analytical approach followed initially was respected in subsequent reviews.** Still, in some programs (Greece, Jordan) staff changed approach as the programs went ahead because updated DSA methodologies were introduced. According to staff, the introduction of the new methodologies improved their ability to evaluate the criterion and discuss with the authorities.

109. **The MAC DSA enriched the assessment, allowing staff to systematically consider refinancing aspects, but still fell short of providing a robust assessment.** The mechanical signals were too imprecise and inaccurate to fend off country opposition to debt restructuring.[44] The improvements brought about by the MAC DSA facilitated program design and program negotiation, but as shown by the Greek, Ukrainian and Argentinean experiences, they were not sufficiently robust to allow EAC2 to be assessed on a mainly analytical basis; there remained a large scope for judgment. In Greece, faced with the need to model very long-duration official loans, which implied very substantial debt levels with low refinancing needs, IMF staff designed a stand-alone version of the MAC DSA that focused on modelling refinancing risks.

[44] The threshold for HP was not always 80 percent. During Jordan's 2012 SBA, 70 percent was set as sufficiently high.

Box 2. Debt Dynamics: Drivers and Forecast Errors

The contributions of key drivers to deviations from program projections are derived from the debt dynamics decomposition used in the MAC DSA.

$$\Delta d_t = \frac{z_t d^f_{t-1}}{(1+g_t)(1+\pi^f_t)} + \frac{r_t - g_t}{1+g_t} d_{t-1} + \frac{\pi^d_t - \pi^f_t}{(1+\pi^f_t)\rho_t} d^f_{t-1} - pb_t + sfa_t$$

Where, the change in debt, Δd_t = $(d_t - d_{t-1})$, is decomposed in five components. The first element is the real exchange rate effect. The second is the real growth interest differential, which is the difference between the real interest rate effect and the real growth effect. The third is the relative inflation component. The final two are the primary balance effect ($-pb_t$), and the stock flow adjustment (sfa_t) which is obtained as a residual. Data on projections and outturns for these components was obtained from the MAC DSA database. From the same source, we obtained projections and outturns for the underlying data on interest rates, inflation, and nominal GDP growth.

Using these series, we investigate the drivers of forecast errors in debt dynamics. Following the approach used by IMF staff in the MAC DSA review (IMF, 2020c), we run an OLS regression of the difference between outturns and projections for the change in debt, and for each of its components, against a constant. Within such simple econometric framework, a significant constant is an indication that there is a systematic bias in the projection of the variable under scrutiny (IMF, 2020c). The table below presents the results from the various regressions.

Bias in Debt Projections

	Normal Access	Exceptional Access
Change in debt	2.129***	0.504
PB effect	1.335***	1.498***
RIR effect	-1.447***	-2.475***
RG effect	0.985***	0.305
NER effect	0.428	1.637***
Other effect	0.0828	0.149
Residual	0.778***	0.0425

***,**, and * stand for 10, 5 and 1% significance

According to the results, negative debt surprises are more prevalent in NA programs. Debt outturns during EA programs are not significantly above projections. In EA programs, the major driver of deviations for debt dynamics is an underestimation of the impact of primary balances and exchange rates. The negative effect on debt of the worse that projected behavior of these drivers is fully compensated by an overestimation of the real interest rate effect.

We further drill into the source of the projections errors by performing the same exercise with the macro variables underlying the debt accumulation equation. The results show that EA programs suffer from systematic biases in the estimation of nominal debt stocks (weakly overestimated), primary balances (smaller that programmed), interest rates (smaller than projected), and inflation rates (larger than expected). Conversely, there is no systematic error in the measurement of nominal growth.

Bias in Macro Projections

	Normal Access	Exceptional Access
Debt	3.182***	-2.972*
Primary balance	-1.335***	-1.498***
interest rate	-0.350***	-1.128***
Growth	-1.297***	-0.274
Inflation	1.869***	2.962***

Source: Author's calculations using data obtained from the MAC DSA database.

110. **Staff faces a difficult challenge in assessing financing needs and market access**. Box 3 below studies staff projections about gross financing needs and market financing. The results show that EA programs consistently underestimate gross financing needs, and that part of this bias is explained by a substantial underestimation of the interest payments on local currency debt.

Box 3. Gross Financing Needs and Market Financing: Projections and Outturns

To systematically study the financing assumptions underlying EA programs, as well as the dynamics of Gross Financing Needs (GFNs) and borrowing costs, we rely again on the MAC DSA database. We collected data on projections and outturns for GFN (as percentage of GDP), interest payments on local currency, interest payment of FX debt, and the nominal effective interest rates on new borrowing.[1] As before, we regress the difference between outturns and projections against a constant using an OLS regression.

According to these results, presented below, both EA and NA programs underestimates gross financing needs. In the case of EA cases, this is in part driven by a substantial underestimation of the interest payments on local currency debt. While the cost of new borrowing is systematically overestimated during normal access programs, there is no evidence of such bias during EA programs.

Biases in Financing Assumptions

	Normal Access	Exceptional Access
Gross Financing Needs	1.91***	1.40***
Interest payment LC debt	0.20***	0.74***
Interest payment FX debt	0.10**	2.16
Effective nominal interest rate	-023***	-0.19

Source: MAC DSA database. Interest payment errors are measured as % of the projection value.

Source: Author's calculations using data obtained from the MAC DSA database.

[1] The database contains information about amounts issues in local currency and amount issued in short term debt. Unfortunately, the data is missing for most EA programs, preventing us from including them in the analysis.

111. **The MAC DSA framework could not embed non-plain vanilla debt instruments.** The excel framework embedding the DSA could not include in the debt structure neither the GDP warrants issued during the Greek and Ukrainian debt operations, nor the zero-coupon bonds Argentina or Ukraine issued regularly. This forced staff to produce creative solutions to infer the correct interest payments and debt flows.[45]

112. **The HP-tool was also too volatile to suitably assess EAC2.** Since 2014, this internal tool was used to support the assessment of debt sustainability. At times, like in Ukraine in 2014, it proved useful; at the end of the SBA, the tool flashed red. In 2015, conditional on debt relief, it showed a sustainable debt with high probability. Where uncertainty was high, however, the HP-tool proved of little help. During interviews, it was explicitly defined as unreliable and lacking any econometric foundations. Interviewees expressed similar concerns as regards the use of the HP-tool in Egypt and Argentina. Jordan and Pakistan were two of the three cases where the

[45] Zero-coupon and coupon bonds imply different debt flows.

HP-tool did not confirm that debt was sustainable with high probability. The HP-tool confirmed that debt in Greece 2012 and Ukraine 2015 was not sustainable before restructuring. With the arrival of the SRDSF, staff stopped using the HP-tool.

113. **The application of judgment to the assessment of EAC2 too often was less able to correctly predict future debt sustainability than the mechanical assessments.** Figure 1 extends the empirical analysis of judgement presented in IMF (2020c).[46] Results are discouraging. In both Ecuador and Argentina, staff judgment failed to improve the mechanical signal. In only one of new cases covered, Egypt, did judgment bring the final assessment closer to the final outcome. Some interviewees perceived career concerns, IMF strategic interests and political motivations to be among the drivers of such failure.

114. **The weak predictive ability of the DSA framework, supported by staff judgment, to give a decisive answer was exacerbated by the 2016 reform, which requires backing the high probability statement analytically.** The experience of Argentina is enlightening. Figure 2 compares results from runs of the HP-tool, various internal assessments, and the final assessment of EAC2 at each review of Argentina's 2018 SBA program.[47]

115. **When the SBA was approved, the tool gave a green light and team judgment downgraded the assessment to gray.[48]** By the first review, the direction of the adjustment changed. In preparation of the first review, some runs of the tool turned to red in all three components. There were many iterations of the HP-tool during the first review. Through these, the outcome moved from all subcomponents in red to later versions in gray. This aligns with reported strong perceptions of "reverse engineering" (see Pérez-Verdía and de Las Casas, 2024). By the fourth review, the need to tone down the mechanical signal was acute. Despite this, the program only went off-track during the fifth review. Until then, staff judgment kept Argentina in the gray zone.

116. **While in general judgment was exercised smoothly, there were a few times where the judgment of staff appeared to not align with the perceived desire of the Board and management.** This, according to interviewees, happened in Latvia 2008, in Greece in 2010, 2012 and 2016, and in Argentina during its 2018 SBA. The interdepartmental review for both Greece's 2012 and Argentina's 2018 programs shared similarities. In both, the Strategy, Policy, and Review Department (SPR) and the corresponding area department a had sharp disagreement regarding whether EAC2 was met.

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[46] The MAC DSA review reports that in 70% of cases where judgment was used it worsened the mechanical signal.

[47] Figure 2 includes all of the HP-tool runs that were made available to the IEO.

[48] The result in the adverse scenario called for further analysis.

Figure 1. Mechanical Results and the Use of Judgment in Exceptional Access Cases Since 2012

Program	Heatmap signal		Team assessment at program approval 1/	Outturn
	Debt	GFN		
Greece 2012 EFF	Program delays 4/	Program delays 4/	Results show that the program can place Greek debt on a sustainable trajectory, but there are significant risks that debt declines may be interrupted or even reversed by shocks. 2/	Off-track program and missed repurchase to the Fund.
Jordan 2012 SBA	4/	4/	Staff projections indicate that Jordan's public debt will remain sustainable in the medium term with high probability. 3/	Some market access at the end of the program. Elevated debt level and GFN post program. 5/
Ukraine 2014 SBA	Real GDP, FX rate	All red	Despite its rapid increase, Ukraine's public debt is assessed to be sustainable with high probability. Under the baseline scenario, public debt is projected to peak at 63½ percent of GDP in 2015, below the 70 percent of GDP high-risk threshold used in the debt sustainability framework.	Default.
Ukraine 2015 EFF	All red	All red	... Ukraine's public debt is assessed as sustainable with high probability. Such an assessment hinges crucially on four main assumptions: (i) the full implementation of policies under the program; (ii) adequate and timely external financing from the official sector; (iii) completion of a debt operation with holders of Ukraine's public sector debt; and (iii) the non-intensification of the conflict in the East.	Elevated debt level in 2018.
Argentina 2018 SBA	FX rate	Real GDP, FX rate	On balance, under the program baseline, staff assesses debt to be sustainable but not with high probability. In the adverse scenario, federal debt would be about 4 percent of GDP higher than in the baseline by end-2021. US$50 billion of access under the program would be needed to ensure the program remains fully financed, and in that scenario, the DSA shows Argentina's debt to be sustainable, albeit not with a high probability.	Default.
Ecuador 2020 EFF	Real GDP	All red	Under baseline projections, Ecuador's public debt is assessed to be sustainable with high probability, thanks to the successfully concluded bond exchange, specific and credible financing assurances on financing/debt relief from official bilateral creditors, other committed financing and good prospects for additional contributions from international financial institutions (IFIs), and the envisaged fiscal consolidation. 1/	No market access at the end of the program.
Egypt 2020 SBA	All red	All red	The Debt Sustainability Analysis indicates that Egypt's debt remains sustainable, but not with a high probability. Under the baseline scenario, debt is projected to increase in FY2019/20 and FY2020/21 before resuming its downward trajectory to 77 percent of GDP by FY2024/25.	Weak market access at the end of the program

Sources: MACDSA; and DSA writeups.

1/ The team assessment is green (red) if the report notes that debt is sustainable (unsustainable) under the baseline; it is yellow otherwise, including when the writeup highlights vulnerabilities and/or mitigating factors. For Ecuador, the mechanical signals correspond to the situation pre debt restructuring.

2/ Taken from the first paragraph of DSA annex.

3/ Taken from EAC2 assessment.

4/ There was no MACDSA for Greece 2012 EFF and Jordan 2012 SBA program request. The heatmap is inferred from stress tests in the DSA annex. In specific, Jordan 2012 SBA staff report reads "The debt outlook is vulnerable to adverse shocks. Public debt could rise to over 90 percent of GDP with an interest rate shock, a growth shock, a combined shock, or a global/regional downturn scenario, to which the debt flow is the most sensitive. Most other bound tests suggest that public debt would rise to slightly below 90 percent of GDP." Additionally, Greece 2012 EFF staff report reads "The debt trajectory is extremely sensitive to program delays, suggesting that the program could be accident prone, where sustainability could come into question. ...With debt ratios so high in the next decade, smaller shocks would produce unsustainable dynamics."

5/ The heatmap in Jordan's MACDSA in July 2015 was all red for debt and GFN, the bottom line assessment of Jordan HP results in October 2015 was "Further Analysis", and the heatmap in Jordan's MACDSA in August 2016 was all red for debt and GFN.

Figure 2. EAC2 During the 2018 Argentina SBA: Mechanical Signals and Judgment

Sustainable with high probability | Unsustainable | No assessment | Sustainable but not with high probability | Further analysis

	Final EAC2 Assessment	EAC2 Assessments produced at each review	HP Tool Assessment
Review 0	sustainable but not with HP	sustainable but not with HP	sustainable with HP
		sustainable with HP	sustainable with HP
		sustainable with HP	sustainable with HP
			sustainable with HP
		sustainable but not with HP	sustainable with HP
			sustainable with HP
		sustainable but not with HP	Further analysis
		sustainable but not with HP	Further analysis
			Further analysis
Review 1	sustainable but not with HP		sustainable with HP
			sustainable with HP
		sustainable but not with HP	sustainable with HP
			unsustainable
		sustainable but not with HP	unsustainable
			unsustainable
		sustainable but not with HP	Further analysis
			unsustainable
		sustainable but not with HP	Further analysis
			unsustainable
			Further analysis
		sustainable but not with HP	unsustainable
			unsustainable
		sustainable but not with HP	unsustainable
			unsustainable
		sustainable but not with HP	unsustainable
			unsustainable
		sustainable but not with HP	sustainable with HP
			unsustainable
		sustainable but not with HP	sustainable but not with HP
			sustainable but not with HP
Review 2	sustainable but not with HP	sustainable but not with HP	sustainable but not with HP
		sustainable but not with HP	unsustainable
		sustainable but not with HP	sustainable but not with HP
		sustainable but not with HP	sustainable but not with HP
		sustainable but not with HP	
Review 3	sustainable but not with HP		Further analysis
		sustainable but not with HP	Further analysis
			Further analysis
		sustainable but not with HP	unsustainable
			sustainable but not with HP
		sustainable but not with HP	sustainable but not with HP
			unsustainable
		sustainable but not with HP	unsustainable
			sustainable but not with HP
		sustainable but not with HP	unsustainable
			sustainable but not with HP
Review 4	sustainable but not with HP		sustainable but not with HP
		sustainable but not with HP	unsustainable
			sustainable but not with HP
			sustainable but not with HP
		sustainable but not with HP	sustainable but not with HP
			unsustainable
			Further analysis
		sustainable but not with HP	sustainable with HP
			unsustainable
			sustainable but not with HP
			unsustainable
		sustainable but not with HP	unsustainable
			sustainable but not with HP
Review 5 *(incomplete)*		sustainable but not with HP	unsustainable
		sustainable but not with HP	
		sustainable but not with HP	unsustainable
		sustainable but not with HP	
			unsustainable

Sources: SPR, WHO, IMF Board Papers, and Staff calculations.
Note: HP-Tool Assessment data is an assessment done by Staff> =1 per review. Staff Draft Documents include versions of policy notes, staff statements and staff reports sent for departmental and management comments. Final Assessment are final documents provided to the Executive Board.

The Role of Debt Operations

117. **Since the reprofiling option was introduced in 2016, it has not been used.** When market access is retained, authorities back away from debt reprofiling. Under such circumstances, it has been hard for staff even to discuss the possibility with authorities. In Argentina, while initially there was both market access and sufficient restructurable debt, after the first review, an

internal view grew that debt was unsustainable, but the idea of asking for a debt operation gained no traction. In Egypt, a debt operation was not necessary under the baseline but was discussed as a contingency, but the view was that, given the domestic nature of most debt, there was very little to gain from the operation.

118. **Within the cases covered in this paper, Ecuador, Greece, and Ukraine included a debt operation as part of their programs, while in Argentina, debt restructuring happened after the program was canceled.**[49] The experiences were divergent. The debt operation in Ecuador, whose implementation was conditional on the country reaching a Staff-Level Agreement on the EFF, worked smoothly.[50] Also the Ukrainian restructuring, which used a GDP warrant to bridge differences with investors, was carried out swiftly.[51] Both operations delivered the relief needed to cover the financing gap and removed liquidity risks.[52] While at a technical level, the 2012 Greek bond restructuring was well-executed, it created the need to recapitalize the banks and triggered a credit crunch. As a result, despite substantial debt relief, the operation still left Greece with extremely high levels of gross financing needs and debt.[53] While the Argentine authorities considered debt operations to be a "red line" during the 2018 SBA, faced with a worsening situation and a DSA that said that debt was not sustainable, they swiftly implemented a domestic debt restructuring in 2020.[54]

119. **The IMF was the keystone of large official financing packages in Greece and Ukraine.** Also, the program with Latvia in 2008 successfully catalyzed support from official sources and a voluntary private sector standstill. In contrast, in Argentina the Fund went in alone, which made the continuation of its lending critical for avoiding a sovereign default.[55]

120. **While debt reprofiling has not been used as a component of EA programs, a simple analysis of the historical record shows such approach to debt restructuring cannot be relied upon to reduce debt stocks.** To gain some quantitative insights into how the debt dynamics are affected by debt reprofiling, Box 4 below uses the historical record of debt

[49] There is just one more case of EA involving debt restructuring, St. Kitts and Nevis in 2011 (IEO, 2021). As St. Kitts and Nevis obtained substantial relief, imbalances improved, the program turned precautionary.

[50] In July 2020, the authorities agreed to restructure US$17.4 billion in international bonds. Most holders participated. It affected mostly external debt. It included a principal debt reduction for some instruments and maturity extensions for others. It generated US$11 billion on interest and amortization savings over 2022–25.

[51] The warrant did not cap the upside and could have been a threat to sustainability (Erce, 2021).

[52] Debt operations with upfront principal haircuts combined with needed policy adjustments, such as the ones implemented in Ukraine and Ecuador, have been most successful in restoring debt sustainability also in other IMF programs that envisaged debt operations, including the EA program with St. Kitts and Nevis in 2011 (Erce, 2021).

[53] Once launched, the deal was done quickly. The smooth execution is attributable to the fact that over 90% of the bonds were governed by Greek law and were amended retroactively to include collective action clauses (Zettelmeyer and others, 2013).

[54] IEO (2021) shows that debt operations generate systematic biases in IMF projections.

[55] In Argentina, in 2018, swap line offered by People's Bank of China played a small role. This swap line was subsequently scaled up and partially disbursed under the successor EFF.

restructuring. It presents two main findings. First, debt reprofiling operations are systematically followed by larger debt levels, but deeper debt operations are neither capable of systematically delivering lower debt stocks. Second, debt reprofiling combined with IMF financing is accompanied by a significant reduction of debt stocks and a muted reaction of both spreads and foreign capital inflows.[56]

Box 4. Debt Reprofiling: What Effects on Debt Dynamics and Market Access?

To study empirically the effect of debt reprofiling on debt dynamics and market access, we use a simple panel regression. We obtain data on central government debt from the IMF's Global debt database, on capital flows and on interest rate spreads over the U.S. from WEO, and on credit ratings from S&P.

Data on debt operations with private creditors comes from Erce, Mallucci, and Picarelli (2024). Using this dataset, we first assess the impact on debt and market access of debt operations when we separate them depending on how much relief they provided. One group collects deep operations that provided substantial relief. The other one collects debt operations that provided almost no relief.

Model 1. Mild vs. Deep Operations: $y_{i,t} = \alpha + \beta_{RDR} \cdot RDR_{i,t} + \beta_{DDR} \cdot DDR_{i,t} + \partial \cdot X_{it-1} + \mu_i + \delta_t + \varepsilon_{it}$

Within this specification, $y_{i,t}$ is the dependent variable, and X_{it-1} is a set of common controls.[1] $DR_{i,t}$, in Model 1, is a dummy indicating if country i underwent a debt restructuring at time t. $RDR_{i,t}$ and $DDR_{i,t}$, in Model 2, are mutually excluding dummies. $RDR_{i,t}$ contains debt reprofiling events, which we define as defaults without principal reductions, an NPV relief below 15 percent, and no accumulation of arrears.[2] $DDR_{i,t}$ contains all other debt operations.

We apply these specifications to three different dependent variables ($y_{i,t}$):
(i) Four-year ahead Public Debt measured as $Debt\ stock_{\ t+4}/GDP_{t+4} - Debt\ stock_t/GDP_t$
(ii) One-year ahead interest rate differential to the US (sovereign spread).
(iii) Four-year ahead cumulative foreign bond flows (normalized by country-specific standard deviations).

The results are presented below. For brevity, the Table focuses on the coefficients of interest.

Market Access and Debt Dynamics Following Debt Operations

	Borrowing spread	Public debt	Foreign bond inflows
Deep debt restructuring	8.591*	-2.920	-0.0802
	(4.745)	(6.172)	(0.0842)
Debt reprofiling	2.109***	9.534***	-0.113***
	(0.697)	(3.239)	(0.0368)
Observations	807	562	625
R-squared	0.149	0.322	0.080
Number of countries	56	53	55

Clustered (at country-level) standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Country and year fixed effects, lagged credit rating, lagged public debt, lagged interest rate spread and lagged cumulative foreign capital inflows are unreported spread controls.

When compared with deeper debt operations, mild debt reprofiling operations have a much more limited effect on borrowing costs (220 bps increase against 860 bps). Additionally, debt reprofiling appears to be consistently accompanied by increases in debt stocks, and fails to be followed by stronger access to international bond investors (foreign capital inflows are lower). The goal of reprofiling may be to obtain breathing space, but it comes at a cost.

[56] Unfortunately, this analysis does not allow to discern whether debt reprofiling paired with exceptionally large IMF loans produces analogous effects.

Next, we expand the regression to allow for an interaction between debt operations and IMF lending. That allows us to see with more accuracy whether what the policy has in mind, which is a combination of debt reprofiling and official financing, performs better.

Model 2. DR with IMF: $y_{i,t} = \alpha + \beta_{RDR} \cdot RDR_{i,t} + \beta_{DDR} \cdot DDR_{i,t} + \beta_{IMF} \cdot DR_{i,t} \cdot IMF_{i,t} + \partial \cdot X_{it-1} + \mu_i + \delta_t + \varepsilon_{it}$

In model 2, $IMF_{i,t}$ is a dummy collecting whether country i has an IMF program at time t. Within this regression, the dynamics following a debt operation are dependent on whether an IMF program was in place, as measured by the coefficient β_{IMF}. The results for model 2, which includes the same controls as model 1, are shown below.

Market Access and Debt Dynamics Following Fund-Supported Debt Operations

	Borrowing spread	Public Debt	Foreign bond inflows
Deep debt operation	20.84***	3.483	-0.158**
	-1.702	-2.714	-0.07
Debt reprofiling	8.55**	13.33***	-0.22**
	-3.992	-4.291	-0.09
Debt operation with IMF	-9.395***	-13.17**	0.06
	-2.781	-5.429	-0.07
Observations	904	683	712
Number of countries	56	52	53

Clustered (at country-level) standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Country and year fixed effects, lagged credit rating, lagged public debt, lagged interest rate spread and lagged cumulative foreign capital inflows are unreported spread controls.

According to these findings, the negative impact of debt operations is lessened by the availability of IMF lending.[3] While there is no strong evidence that mild debt operations (debt reprofiling) under an IMF program are rewarded with more foreign inflows, the evidence implies that a debt reprofiling under an IMF program should be expected to have no negative effect in borrowing costs. In fact, the point estimates speak of a slight reduction in borrowing costs. A similar result applies to the dynamics of the debt stocks. Deep debt operations tend to be followed by lower debt levels when the IMF is involved. In contrast, mild debt operations under an IMF program are, at best, followed by stable debt stocks.

Source: Author's calculations using data obtained from the IMF's Global debt database, WEO, S&P and Erce and others (2024).

[1] Controls include lagged values of credit rating, public debt ratio, interest rate spread and cumulative foreign capital inflows.

[2] There are twenty of such debt operations in our sample. The policy speaks of no reduction in coupons and no reduction in the principal. Unfortunately, the data does not contain enough of these episodes. We chose a definition that is very close. Without nominal haircuts, a restructuring with an NPV lower that 15%, implies short maturity extensions and limited coupon reductions.

[3] Results are robust to the use of Driscoll-Kray errors. One concern with the simple approach offered here is that it is subject to omitted variable and reverse causality biases. Omitted variables (high public deficit, high gross funding needs, political instability) could be driving both market access and the decision of the authorities to restructure. A sovereign financial crisis (loss of market access, high spreads) could trigger a decision to reprofile the debt (reverse causality).

Interaction with Other IMF Policies

121. **Where debt was deemed sustainable but not with high probability, obtaining financing assurances was an integral part of fulfilling EAC2.** This was more evident in more recent programs and in programs which involved a debt operation. The approach was less formal in the past, as shown by a comparison between the official assurances received during the Greek and Egyptian programs. In Greece, promises of support by European partners at times did not take the form of any official communication. In contrast, in Egypt, assurances of the rollover of official deposits at the Central Bank were formal.

122. **The Lending into Arrears policy applied in Argentina and Ecuador, in both cases because of the existence of long-standing holdouts.** The authorities were deemed to be making good efforts to reach a collaborative agreement with holdouts because they were offering them the same conditions granted to exchanged bondholders. Official arrears were not a problem in Ecuador or in Argentina. Still, the Ukrainian 2015 program, which was the first approved using the LiOA, raised the specter of lacking evenhandedness.

123. **The need to use arrears policies should be an alarm as regards fulfillment of EAC2 when the DSA is in the grey zone.** According to staff involved, the experience of Argentina and Ecuador points to the fact that countries who have litigation holdouts from previous debt restructurings do not have steady well-priced market access.[57]

124. **The Debt Limits Policy has informational requirements that are key to the application to EAC2.** While the reporting requirements of the policy were observed in Ecuador, in Egypt, program documents did not provide the required information on debt holders' data.

Debt Sustainability Outcomes

125. **Since 2016, the completion of the Ecuador and Egypt programs implies a sharp improvement of performance, but concluding a program does not necessarily mean that the program was successful**. In fact, if one considers whether the countries required additional IMF financing, in the more recent period, the performance of the EAP in delivering sustainable debt is less benign. Both Argentina and Egypt are still engaged with the IMF, and the level of exposure to both countries has increased.

126. **While the experiences are heterogeneous, it was not seldom that debt sustainability worsened during the deployment of EA assistance.** Figure 1 presents the sustainability rating following the end of the corresponding EA program. In most cases, the country did not improve its risk rating.

127. **Gross financing needs often look risky when countries rely on domestic debt.** This was the case for Jordan, Argentina and Egypt, where a significant part of public debt is domestic and has very short maturities. In these cases, staff used judgment to balance the fact that a large share of domestic debt with short maturities results in high gross financing needs, with the important role that domestic financial institution can play, through regulation and moral suasion, in reducing rollover risk.

128. **One factor that may help explain this is that EA programs have a different debt structure than normal access programs. EA programs have featured countries with larger debt levels, which include more local currency debt and more short-term debt.** These two

[57] For evidence on the link between holdouts and haircuts, see Fang and others (2024). For evidence on the link between haircuts and the quality of market access, see Cruces and Trebesch (2013).

features make the dynamics of debt more sensitive to exchange rate and rollover shocks, making it more prone to overshooting. Table 2 shows countries' debt structure when applying to an IMF program since 2013.

Table 2. Debt Structure in EA Programs

		Total Public Debt	Local Currency Public Debt	Short-term Public Debt
Full sample	Normal Access	38.01	31.85	6.16
	Exceptional Access	68.97	62.55	6.41
Post-2016	Exceptional Access	60.01	52.04	7.97
GFC	Exceptional Access	88.77	81.01	7.77

Source: MAC DSA database.

B. Implementation of the Market Access Criterion

129. **The implementation of EAC3 was not sufficiently systematic.** Despite the criterion being explicit regarding the timing and volumes of market access, in evaluating whether it was met, staff often did not consider these in any systematic or formal manner**.**

130. **Predictions about regaining access to bond markets were not backed by a tested benchmarking and were based on judgment.** There is some analytical guidance in the 2015 paper, but neither program documents nor the interviewees indicate this guidance had much traction. In some programs, the criterion was assessed against a wide range of financial markets variables. In others, the assessment largely relied on judgment, including indications provided by the authorities.

131. **Mentions of current market access as a sufficient proof that EAC3 was met are ubiquitous.** They were used in Argentina, Jordan (EAC3 was also pinned down by current access to the domestic market with foreign presence), Egypt (current access was also seen as a signal of future access) and Ecuador (where recent and regular access was used to premise future access). In Greece, the wording of EAC3 when the SBA was approved made clear that market access wouldn't be there in the form required by the criterion. While, according to staff involved in the program, the exact wording of the criterion was not respected, that was acceptable because the Euro-group guaranteed the IMF would be repaid.

132. **In assessing EAC3, staff often focused on whether the country had current access to non-resident sources of financing, including via their participation on domestic markets.** In contrast, the assessment barely paid attention to whether the terms of market borrowings (interest rates and maturities) would be consistent with future debt sustainability.

133. **Similar arguments supported the fulfillment of EAC3 at each review, although very often underlying rationales kept weakening**. Within the cases covered here, there is not a single instance in which EAC3 stopped being met during a program review. This looks like a sign

of weak implementation, and strengthens the perception that once an assessment is made it is hard for the Fund to change it. Argentina, where staff's early expectations regarding market access proved incorrect by the first review, is the clearest example of this problem.

134. **Staff argues that it is not clear how EAC3 should be evaluated.** The absence of developed analytical markers and of a guideline for the application of the criterion implies that different programs follow different approaches to evaluate whether EAC3 is met. Some interviewees argued that the criterion requires access to international capital markets, others argued that what is important is that the government can access foreign savings. Still, others considered that what matters is the presence of foreign creditors. Certainly, all these rationales can be found in the different program documentation covered here. This raises concerns regarding evenhandedness and implementability.

The Use of Analytics and Judgment

135. **Evaluation of EAC3 has relied on judgmental calls, in some cases very finely balanced ones.**[58] In Argentina, the assessment of whether market access was retained was skewed towards the ability to issue some form of debt. In Ecuador, following a successful debt operation, staff judged that Ecuador would regain market access while the program was ongoing. In Egypt, given that the authorities continued to have market access and that the country had a history of marker access right after IMF programs, the criterion was seen as met. In the context of the Greek program, a modification to the criterion was discussed that would have allowed Greece access to IMF resources even if it did not meet EAC3. In the end, EAC3 was said to be met. Remarkably, the evaluation of EAC3 for Greece explicitly noted that the country would not have sufficient market access to repay the Fund. The criterion was, despite this, assessed as met, based on the existence of official financing assurances.

136. **Judgment was generally exercised transparently, but at times faced substantial challenges.** In some cases, such as Latvia, Egypt or Ukraine, judgment calls were well grounded and market access happened after the program in line with projections. In other cases, it was far less evident how to determine whether the criterion was met. Argentina and Greece are cases in point. The desk review shows that rating downgrades, jumps in spreads, and withdrawal of foreign investors from domestic markets were often used as evidence of doubtful market access.

[58] Lane and Saveikyte (2024) offers a succinct summary of factors accounted for in earlier cases: (i) track record of debt issuance or debt servicing (Latvia, Pakistan, Ukraine); (ii) normalization of international capital markets (Latvia, Jordan); (iii) program implementation lowering spreads and raising confidence (Ukraine, Jordan); (iv) official financing (Greece); and (v) other balance of payments flows (positive in Pakistan and potentially negative in Latvia).

Still, according to interviewees, no explicit decision-making framework was followed to determine if the criterion was met.[59]

137. **The lack of a more granular classification of market access and an analytical framework on which to make judgments makes it difficult for staff to express views that contradict the authorities.** According to interviewees, the issue is that there is no actual framework. One view was considered as having market access. In Ecuador, regular issuance of an international bond at a very substantial cost was used to justify fulfilment of the criterion. In turn, in Argentina, having the public sector buying central government debt, or being able to place six-month maturity dollar-denominated debt internally at very high rates was judged as sufficient market access. This view stands in contrast with that of other interviewees, who questioned the use of analytical tools, arguing that it is impossible to predict market access. The existence within the staff of these latter views may help explain an overly simple approach to assess EAC3 that premises future access on the existence of tenuous market access today.

138. **When assessing the criterion, only at times was consideration given to the potential disruptive effects that having a large proportion of senior official debt can have on prospective market access.** In Argentina, the Fund was supposed to perform a catalytic function, but no one wanted to come in. In Greece, staff acknowledged that the large official debt stock would complicate Greece's market re-access.

139. **As the DSA tools have been more sophisticated and risk-based, the analytical gap between EAC2 and EAC3 has grown.** Having access to private markets on a scale and terms that allow repayment of Fund resources should be a critical element in any assessment of a country's capacity to repay the Fund. The absence of analytical tools to gauge market access is a weakness of the Fund's risk management.

The Role of Debt Operations and Other IMF Policies

140. **Among the cases analyzed in detail in this chapter, where debt operations were used, they resulted from situations of unsustainability, and implied substantial changes to the original debt instruments.** The experience with these cases was mixed. In Greece and Ecuador, following the debt restructuring operation countries failed to regain market access.[60] The experience of these two countries points to the importance of the "quality" of the debt restructuring. If the debt relief obtained is not sufficient, or if important creditors do not participate or feel mistreated, the restructuring may fail to elicit renewed market access (see also Erce, 2021).

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[59] When resolving doubts regarding whether EAC3 was being met, MCM often brought market expertise and the LEG offered the scope for interpretation within the wording of the policy. In cases where disagreements remained, SPR held the final word.

[60] Greece briefly regained market access in 2013–14, but its subsequent collapse brought that to a halt.

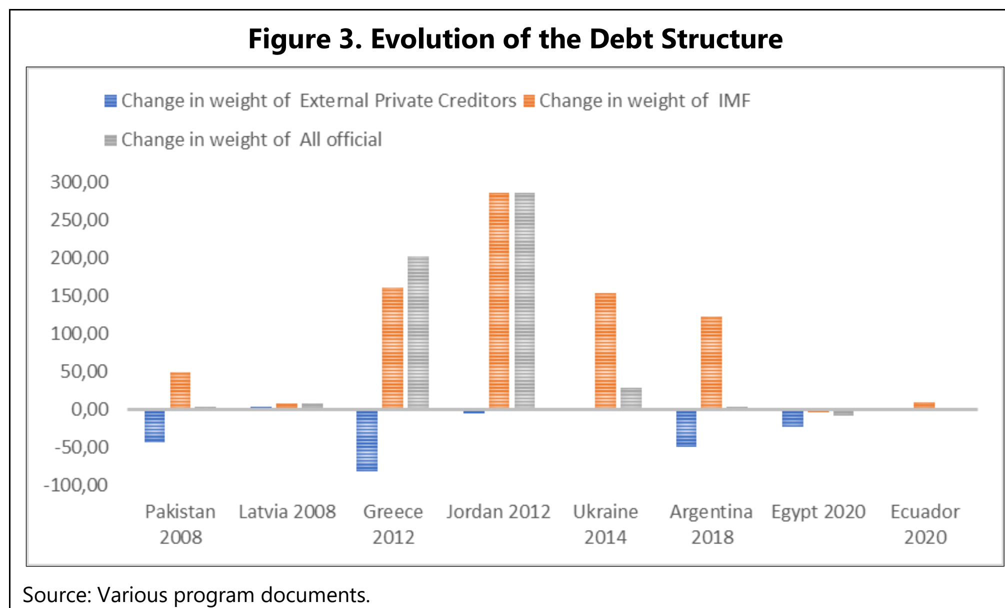
141. **To gain some quantitative insights into the effects that a debt restructuring involving a maturity extension, mild NPV loses and no principal reduction could have, Box 2 presents econometric evidence based on the historical record of debt restructuring.** The results show that, when compared with deeper debt operations, debt reprofiling operations have a much more limited effect on borrowing costs and fail to improve the appetite of international bond investors (measured by foreign capital inflows).

Market Access Outcomes

142. **As shown in Table 1 and Figure 1, in most programs tracked here market access was not regained even 12 months after the program had finished.** In Greece, market access was not recovered until years after the 2012 EFF had stopped. In Ukraine, a first Eurobond in July 2016 and subsequently accessed markets multiple times over the program period. Market re-access was slower than projected in Argentina and Ecuador but faster in Egypt. All three countries are currently facing substantial pressure to maintain market access.

143. **The weak market re-access that tends to characterize EA programs could be partly explained by the effect of having both a large debt stock and a growing exposure to official (senior) creditors.** Figure 3 reports on the change in the creditor structure following recent EA programs. While the evidence is limited, Argentina, Greece, Egypt and Pakistan show that EA programs can be accompanied by a tilt in the debt structure away from private external creditors and towards official creditors.[61] The increase in official exposures might limit catalytic effects and deter private investment. There is a very delicate balance between catalytic and seniority effects that should inform the design of EA loans (Kogan and others, 2024).

Figure 3. Evolution of the Debt Structure



Source: Various program documents.

[61] In Egypt and Argentina, there was a substantial increase in the importance of domestic sources of financing.

144. **Batsuuri and others (2024) shows that Fund credit outstanding is significant in determining access levels.** Outstanding credit on old programs should not affect access levels for new programs. This finding suggests that capacity to re-access capital markets (and repay the IMF) is being overestimated. This, in turn, is creating a need to roll-over IMF exposures, thereby limiting the revolving nature of IMF lending.

V. ASSESSMENT AND LESSONS

Design of the Debt Sustainability Criterion

145. **The 2016 reform increased the Fund's flexibility to provide EA when debt is sustainable but not with high probability, enabling lending in situations where it would have previously been forced to require an unnecessary and costly debt restructuring** This flexibility was introduced to offer staff an alternative to the systemic exemption, which the reform eliminated.

146. **The flip side of this positive development is that market access, key to avoid debt reprofiling when in the gray zone, has been placed at the center of the application of EAC2.** This, given that market access in countries with vulnerabilities can be fickle, implies that the IMF is now operating under weaker assurances and concentrating more its lending, thereby assuming more risks.

147. **The reform added a new policy tool, debt reprofiling, but it is seen as the last of options.** This has not done much to reduce the stigma associated with debt restructuring. Moreover, in allowing that market access mutes the need of debt relief when there are substantial doubts about debt sustainability, there is a non-negligible risk that the policy makes the too little too late debt relief problem even worse.

148. **There is a lack of clarity about the roles of domestic and external public debt and creditors when debt is sustainable but not with high probability.** The wording of the criterion is not clear as regards what terms of market access (spreads, maturities) and what form of private exposures are sufficient safeguards for IMF lending.

149. **Driving this lack of clarity is the 2009 reform, which shifted the analytical focus away from total external debt to total public debt (fiscal gap).** Although domestic debt is a major component of public debt in many countries, the way IMF staff approaches the evaluation of the criterion in the gray zone focuses on the external element of public debt.

Design of the Market Access Criterion

150. **In contrast with EAC2, which explicitly mentions the roles of domestic and external debt, the wording of EAC3 makes no reference to whether "market access" refers to international or domestic markets.** This ambiguity introduces uncertainty into how the criterion should be evaluated. The criterion seems also ill-designed for evaluation in countries that have never previously accessed private markets.

151. **The criterion does not require that any quantitative targets are met and relies solely on the application of judgment, based on a set of potentially useful indicators, to deliver a definitive answer.** Even though, in reality, market access is granular, staff must treat market access as a binary outcome: either a country has market access or not. The criterion is also silent regarding the terms (price, maturities) of market access. This simple "yes or no" approach is in contrast with EAC2's probabilistic assessment.

152. **The evolution of the wording of EAC3 shows that it is intended to play a key role in ensuring that members' use of IMF resources remains temporary.** Given this key role in guaranteeing the revolving nature of IMF resources, the criterion should require that the assessment of fulfilment be informed by a systematic combination of officially approved technical tools and expert judgement, like EAC2.

Application of the Debt Sustainability Criterion

153. **Using the discretion allowed under the framework, EAC2 was evaluated as met even in countries whose debt was not sustainable with high probability and only maintained tenuous market access.** This enabled EA lending to proceed and helps explain why EA programs avoided debt reprofiling despite debt sustainability not being established with high probability. Given that governments are almost always able to borrow domestically, the concept of "access" to a domestic market requires further qualification.

154. **The DSA framework is increasingly sharp, but the evaluation of the criterion still requires applying substantial judgment.** That the application of judgment often fails to improve the predictive capacity of the framework, with negative implications for program design, and risks triggering loss of analytical credibility and increased creditor reluctance towards the IMF macro framework.

155. **The DSA framework needs to provide a firmer basis for sound judgment, as well as to distinguish technical decisions from decisions that may reflect strategic interests of the IMF.** According to multiple interviewees, presenting as "technical" judgments that are made for strategic reasons can damage the credibility of the framework.

156. **Further staff analytical work seems to be needed on relevant issues.** More analytical work would be useful to develop scenarios that systematically link macroeconomic projections (growth, fiscal deficit, inflation, and interest rates) with projections of the public debt structure, and to better understand the macroeconomic consequences of different debt restructuring strategies involving different types of creditors.[62]

[62] The DSA currently includes assumptions about new borrowing decomposed by holder type, which leads. With some assumptions about the breakdown of amortizations by holder type, this leads to a projections of debt structure. Gathering information on the breakdown of amortizations by holder type (instead of making assumptions based on the breakdown of the overall stock) could help improve these projections.

157. **There is also a need to clarify further how to assess privately-held debt (external and domestic) in relation to IMF credit in the context of applying EAC2.** To evaluate whether there are sufficient private exposures to enable IMF lending in the gray zone, staff first considered the ratio of non-senior external debt to IMF peak lending. Staff now uses two separate tests: the FX test and the DS test. These tests fail to consider adequately the role of future domestic sources of financing, as well as the effect of secondary markets.

Application of the Market Access Criterion

158. **With EAC3 lacking an analytical framework, assessment of EAC3 has relied on judgments where some form of *current* market access (or just the expectation that the program would run to its end) was interpreted as an indication that sufficient *future* market access would be forthcoming to pay back the IMF.** The criterion has even been assessed (in Greece) as met based on the existence of financing assurances by official creditors.

159. **In assessing EAC3, little attention has been placed on the *terms* of access.** Instead, staff often focused on whether the country had current access to non-resident sources of financing, including via their participation on domestic markets. While available, the Fund's guidance regarding market access is focused on the market where debt is issued, while the IMF's official definition of market access refers to non-resident sources of financing.

160. **The assessment of EAC3 needs an analytical framework to guide and discipline the application of judgment.** Predictions about regaining access to bond markets should be backed by a tested benchmarking that helps assess the extent to which market financing can be expected so that the IMF can be repaid. Such assessment, like that for EAC2, should acknowledge that market access is not black or white.

161. **Sharper analysis of market access should be placed high on the analytical agenda of IMF staff to inform staff judgments and determinations for both EAC3 and EAC2.** To adequately evaluate the criterion, in addition to applying judgment, staff needs "reliable" metrics of the future availability of both external and domestic sources of market financing. The SRDSF is equipped with new realism tools to limit optimistic debt forecasts and unrealistic financing assumptions. It also includes a new GFN module to evaluate the country's resilience to roll over risks. These tools could be extended and used to systematically inform determinations about market access in connection to EAC3 and EAC2.

162. **With recurrent external shocks and insufficient adjustment, the combination of large official loans and no debt relief has led to larger debt stocks and creditor profiles increasingly tilted towards official and domestic creditors.** This increases the risk that countries may fail to have sufficient access to market financing at affordable conditions to be able to repay the IMF in time.

163. **Application of EAC2 and EAC3 seems too flexible to safeguard the revolving nature of IMF resources and to avoid excessively long borrowing relation with the IMF.** Whether a tighter application can be carried out will depend on the ability of IMF staff to separate good- from biased-judgment, and on that of the international community in reducing the stigma associated with debt restructuring. Besides, tightening the application of the EA criteria might end "evergreening" but it could also lead to arrears to the Fund, which could have spillovers, potentially putting the revolving nature of Fund resources at risk.

164. **EAC2 and EAC3 may insufficiently acknowledge the role of domestic debt and resident investors.** Modern domestic debt markets increasingly are populated by both resident and international investors that enable large and sudden cross-border swings in debt ownership, with implications for the financing of public debt and the assessment of whether EAC2 and EAC3 are met.

165. **Staff guidance would be useful for clarifying the issues raised in this paper.** In particular, guidance could clarify more fully the meaning of "sufficient private exposure" and "market access," and delineate the roles played by different types of liabilities (by currency, market of origin, and holder) in assessing EAC2 and EAC3. Doing so would help guide markets and countries' expectations about when EA might be available, and attenuate most of the concerns raised in this paper.

APPENDIX I. THE EVOLVING DRAFTING OF EAC2 AND EAC3

	EAC2	EAC3
2002	A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable.	The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge.
2009	A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Debt sustainability for these purposes will be evaluated on a forward-looking basis and may take into account, inter alia, the intended restructuring of debt to restore sustainability. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.	The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.
2010	A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, exceptional access (EA) would be justified if there is a high risk of international systemic spillovers. Debt sustainability for these purposes will be evaluated on a forward-looking basis and may take into account, inter alia, the intended restructuring of debt to restore sustainability. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness."	The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.
2016	A rigorous and systematic analysis indicates that there is high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex-ante, EA will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, EA would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. For purposes of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.	The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.

Sources: IMF (2004; 2009b; 2014; 2016).

APPENDIX II. OVERVIEW OF EAC2 AND EAC3 UNDER EAP FOR PRGT

Since 2009, exceptional access (EA) has been available to low-income countries (LICs). Members are allowed to have EA if three conditions concur: (1) the country is experiencing an exceptionally large balance of payments need, (2) the country has a comparatively strong adjustment program and ability to repay the Fund and (3) the country does not meet the income and market access criteria for blending (IMF, 2009c). The second of these criteria is closely related to EAC2.

Exceptional access under PRGT is subject to procedural safeguards. These safeguards include an update of the DSA. Within PRGT, the ability to repay the IMF is assessed using the LIC-DSF. The assessment of the criterion (2) above would be based on an assessment by the Fund that the country's program and ability to repay the Fund are stronger than for a large majority of LICs. It would not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund DSF, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level.

Market access also plays a systematic role in the PRGT framework for EA. EA under PRGT is subject to an income criterion and a market access criterion. Remarkably, market access is evaluated using specific tests: an issuance test and a "could have tapped test."[1]

Given that a very substantial, and growing, proportion of LIC governments finance their fiscal needs issuing bonds both domestically and internationally, it is far from evident why debt sustainability and access to other sources of financing are not assessed separately also for LICs.

[1] The "could have tapped" test considers factors such as volume and terms of recent actual borrowing, sovereign credit ratings, sovereign credit spreads, GFN, or debt vulnerabilities under LIC DSF.

APPENDIX III. CASE STUDY SUMMARIES

Latvia (2008): the SBA was designed to shield Latvia from the Global Financial Crisis (GFC). The country had a fixed exchange rate and was in the process of joining the euro. After years of strong credit growth fueled by capital inflows, the GFC triggered a reversal of capital flows. The SBA supported a process of internal devaluation needed to avoid an exchange rate depreciation and a banking crisis.

Pakistan (2008): Pakistan, which faced twin fiscal and current account deficits, received its SBA with the goal of pursing a flexible exchange rate policy and eliminating exchange restrictions.

Jordan (2012): the SBA was motivated by disruptions to gas supplies caused by regional conflicts, which strained public accounts. The program succeeded in mitigating the fiscal and external imbalances that affected the country since the global financial crisis.

Greece (2012): Greece was in the fourth straight year of economic contraction in 2012. The four-year EFF tried to achieve debt sustainability through a debt restructuring. The program went off-track following substantial divergences with Greece and with the European partners.

Ukraine (2014): Geopolitical uncertainty associated to the Crimea conflict drove Ukraine into a currency and banking crisis in 2014. The SBA program was premised on a temporary military conflict, and rapidly became unrealistic.

Ukraine (2015): The worsening conflict resulted in a contraction in activity and an increase in the financing gaps. The resulting EFF was centered on a debt restructuring whose broad parameters were set as part of the program.

Argentina (2018): Argentina lost access to international capital markets in mid-2018. The SBA was initially intended to become precautionary after the first tranche. The key goal of the program was to generate confidence. Debt reprofiling, which was initially a red line for the authorities, occurred after the program went off-track.

Egypt (2020): The SBA program followed and RFI loan earlier in the year. It was motivated by desire to sustain Egypt's macroeconomic performance in the face of the COVID-19 pandemic.

Ecuador (2020): The EFF program was intended to help address fiscal and financial challenges in the wake of the COVID crisis. The country partly addressed its debt problem through a debt operation negotiated before the 2020 EFF was agreed.

APPENDIX IV. MAPPING EXCEPTIONAL ACCESS POLICIES AND DSA TOOLS

			Exceptional Access Policy framework in place			
			After 2016 Reform	After 2010 Reform	After 2009 Reform	2002&2004 versions
			Today – 2016	2010	2009	2002
Analytical framework in place	SRDSF	Today – 2020	Egypt 2020 SBA, Ecuador 2020 EFF, Panama 2021 PLL			
	2012 MAC + HP/tool	2015	Morocco 2014 PLL, Ukraine 2015 EFF, Argentina 2018 SBA, Egypt 2020 SBA, Ecuador 2020 EFF, Panama 2021 PLL	Greece 2012 EFF, Romania 2013 SBA, Morocco 2014 PLL, Ukraine 2015 EFF		
	2012 MAC DSA	2012	Morocco 2014 PLL, Ukraine 2015 EFF, Argentina 2018 SBA	Ireland 2010 EFF, Romania 2011 SBA, Portugal 2011 EFF, St. Kitts and Nevis 2011 SBA, Greece 2012 EFF, Jordan 2012 SBA, Morocco 2012 PLL, Romania 2013 SBA, Ukraine 2014 SBA, Morocco 2014 PLL, Ukraine 2015 EFF		
	2002 DSA	2002		Georgia 2008 SBA, Ukraine 2008 SBA, Hungary 2008 SBA, Iceland 2008 SBA, Pakistan 2008 SBA, Latvia 2008 SBA, Serbia, Republic of 2009 SBA, Armenia 2009 SBA, Mongolia 2009 SBA, Costa Rica 2009 SBA, Guatemala 2009 SBA, Romania 2009 SBA, Sri Lanka 2009 SBA, Greece 2010 SBA, Ukraine 2010 SBA, Ireland 2010 EFF, Macedonia, FYR 2011 PCL, Romania 2011 SBA, Portugal 2011 EFF, St. Kitts and Nevis 2011 SBA, Greece 2012 EFF, Jordan 2012 SBA, Morocco 2012 PLL	Georgia 2008 SBA, Ukraine 2008 SBA, Hungary 2008 SBA, Iceland 2008 SBA, Pakistan 2008 SBA, Latvia 2008 SBA, Belarus 2009 SBA, El Salvador 2009 SBA, Serbia, Republic of 2009 SBA, Armenia 2009 SBA, Mongolia 2009 SBA, Costa Rica 2009 SBA, Guatemala 2009 SBA, Romania 2009 SBA, Sri Lanka 2009 SBA	Brazil 2002 SBA, Argentina 2003 SBA, Argentina 2003 SBA, Turkey 2005 SBA, Uruguay 2005 SBA, Georgia 2008 SBA, Ukraine 2008 SBA, Hungary 2008 SBA, Iceland 2008 SBA, Pakistan 2008 SBA, Latvia 2008 SBA, Belarus 2009 SBA, El Salvador 2009 SBA, Serbia, Republic of 2009 SBA, Armenia 2009 SBA

APPENDIX V. OVERVIEW OF DSA FRAMEWORKS IN SELECTED EURO AREA INSTITUTIONS

	Main elements	Results	Outlets
ECB	Deterministic DSA: realistic benchmark scenario + four shocks Stochastic DSA Liquidity, political, market risk, institutional parameters, contingent liabilities	Risk scores and four risk categories: very high, high, medium, contained risks. Assumptions, projections, and variables entering the assessment are detailed in country-pages. No explicit role for expert judgement	Internal assessment of risks to fiscal sustainability Support EC in preparation of program DSA
European Commission	Deterministic DSA: central no-fiscal-policy-change scenario + four country-specific shocks) Stochastic DSA Debt structure, contingent liabilities, liquid assets	Three risk categories (high, medium, low) Separate short-, medium- and long-term assessments. No overall risk Assumptions, EC projections, and aggravating and mitigating factors included in a writeup. No explicit role for expert judgement	Annual Surveillance Program DSA in liaison with ECB • usually limited to a program and one adverse scenario • not harmonized across programs
ESM	No fully fledged DSA framework Debt and financing needs projections based on Commission assumptions.	No debt sustainability assessments Internal Early Warning System (assessments of repayment capacity)	No formal role in surveillance No formal role in DSA under the current ESM Treaty

Sources: Bouabdallah and others (2017); Alcidi and Gros (2018); and ESM webpage.

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