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BP/09/06

Exit: The Transition from Program to Surveillance-only Status in Emerging Market Economies and Its Impact on IMF-Country Interactions

Paulo Vieira da Cunha

Address. 700 19th Street, N.W., Washington D.C. 20431, U.S.A. Telephone. +1 202 623 7312 Fax. +1 202 623 9990 Email. feedback@ieo-imf.org Website. www.ieo-imf.org

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Prepared by Paulo Vieira da Cunha

November 24, 2009

Abstract

This paper explores the transition from conditional use of IMF program resources to IMF surveillance-only among five emerging economies—Brazil, Colombia, Indonesia, Kazakhstan, and Lithuania—and the impact of this exit process on IMF-country interactions. The paper finds that the exit process during 2000-08 was well managed and predictable. For the IMF, it was mainly concerned with the sustainability of the country's underlying macroeconomic conditions, capabilities for macroeconomic management, and access to international capital markets. From the country's perspective, however, exit was mainly seen to be a political decision. Importantly, the exit process did not include a post-exit strategy for the IMF. In practice, surveillance was not the same before and after exit; the Fund's relationships with the case-study countries tended to become excessively formal, distant, and with lower value-added, much like its relationships with advanced economies. The paper concludes that the wholesale transition to surveillance-only by such an important group of emerging market economies presents a major challenge for the IMF in remaining relevant.

JEL Classification Numbers: F33

Keywords: IMF-supported programs; surveillance; emerging markets

Author's E-Mail Address: Paulo@tandemglobalpartners.com and info@ieo-imf.org

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Abbreviations

CCL	Contingent Credit Lines
EDs	Executive Directors
EFF	Extended Fund Facility
EPA	External Payment Arrears
EU	European Union
FCL	Flexible Credit Line
GRA	General Resources Account
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
LOI	Letter of Intent
LR	Likelihood Ratio
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
PIN	Public Information Notice
PPM	Post Program Monitoring
PPP-GDP	Purchasing Power Parity-Gross Domestic Product
RAL	Reserve Augmentation Line
SBA	Stand-By Agreement
SDR	Special Drawing Rights
UFR	Use of Fund Resources
WTO	World Trade Organization

FOREWORD

1. The attached paper was substantially completed in September 2008 and save for this foreword is presented without revisions. At the time, the financial crisis was still unfolding and its final global reach and devastating economic impact was still uncertain.

2. The events since are well known.[1] The pressure in the global financial system building up from the first signs of stress in August 2007 and the demise of Bear Sterns in February 2008 exploded in October 2008, detonated by the bankruptcy of Lehman Brothers—at the time, the fourth largest investment bank in the world. It developed since into what is now recognized as the most severe crisis since the Great Depression, extending from the financial system to the real economy, across the globe.

3. The crisis spurred governments into action including the supra-national institutions and, notably, the IMF. Although it may be premature to pass judgment on what has been done in the intervening months, it is safe to say that the period following Lehman's collapse, the unprecedented G20 Heads of State meeting on April 2, 2009, and leading to the historical IMF Board meeting of April 15, 2009, is one of the most creative and transformative in the Fund's history.

4. The Board of Directors approved a sweeping reform of the Fund's General Resources Account (GRA), including a radically new facility, the Flexible Credit Line (FCL). Directors and their Governors also agreed to massive new funding for the Fund including an unprecedented mandate for the Fund to issue its own debt. They accepted, indeed welcomed, emerging market countries as net lenders to the Fund.

5. The new facility redefines conditionality. It breaks an entrenched tradition; a six-decade-long practice of lending against conditions that grew to define, historically, the very ethos of the institution. In the past, the IMF lent against a specifically designed and monitored program with quantitative targets. The intent was adjustment from a threatening and quantifiable macroeconomic imbalance. But not so anymore: Conditionality in the FCL is entirely ex-ante; approval comes only weeks after request with, if so desired, an immediate disbursal of funds in excess of 1000 percent of quota. There is no formal "mission-based" monitoring. Indeed, the very notion of "conditionality" in the FCL (to which we return below) is vague, a set of ex-ante judgments based on pliant "best practice" type of criteria. To this extent, it differs radically from the revered and severe (if some times inapplicable) concept of "monitored and enforceable conditions" in the classic Stand-By Agreement (SBA) under Article V of the IMF's Articles of Agreement.

[1] See, for example, WEO (2009).

6. In preparing the paper that follows we read through a number of IMF documents and thought about some of these questions; questions that had been raised repeatedly in policy debates, with more urgency after the Brazilian crisis of 2002 and associated IMF programs. How to deal with countries that "graduated" from the IMF? How could the IMF lend against the threat of crisis instead of a proven imbalance caused or not by a crisis? If it could or would not, how did it manage the transition from lending to nonlending and how did this influence subsequent interaction with the country? Looking at the most recent events the sense we come away with is that, shaken by the magnitude of the crisis, global leaders put an end to the questioning. In one swoop they cut through the Gordian knot of conditionality that thwarted reform of IMF lending.

7. This point cannot be overemphasized: The SBA had been (and largely still is) the basis of the relation between the IMF and the "borrowing" countries. The "new layer" of countries that is the focus of the discussion that follows may no longer borrow from the IMF. Nevertheless, the borrowing experience continued to cast a long shadow. It defined this relation and the subsequent pattern of interactions, notably in the period after the breakdown of the Bretton Woods system when the IMF's attention turned from the rebuilding of post-WW-II Europe to the so-called "developing world."

8. To be sure, not all countries had SBAs. Moreover, the concept itself evolved. It expanded to include variations on the theme of conditionality-based lending. Composed to deal with shortcomings in the canon, such as the build-up of unsustainable debt in the poorest countries, major term-of-trade shocks, a newfound focus on "poverty alleviation," etc, the new variations all found ways to preserve the idea of policy based, monitored ex-ante conditionality—even in situations where to all intents and purpose it could not be strictly applied.[2] The basic tenet of an SBA-like relation prevailed and colored the interactions between the IMF management and staff and their member countries.

9. Will the interactions change post-FCL? Likely they will and especially so for the "new layer of emerging market economies" that is the focus of this paper.

10. Even a partial near-term perspective points to change in at least two directions. There is a renewed demand for the use of the Fund's resources (UFR), not entire or primarily linked to the new instrument. As we write, the IMF extended sixteen new SBAs and concluded three FCL agreements, all precautionary. There will be also changes in governance, in particular of representation in management and evenhandedness of country relations.

11. The change in UFR is abrupt. As of May 31, 2009, total UFR was $106.4 billion; it was $48.3 billion in June, 2008. And the change is not in resource use alone. Consider that during the summer of 2008 the main concern of the newly appointed IMF Managing Director

[2] On this and related questions, see IEO (2008).

was downsizing the institution given, as we note in the paper, convincing evidence of a sharp downturn in the demand for its lending and services. At the time, hundreds of staff were discharged or encouraged to leave. The main intellectual challenge for those who remained was to find a "new role for the IMF."

12. For the moment these concerns are gone. They may return, however, as an unresolved challenge for the institution, when the current wave of programs runs out and the lull of the post-crisis period sets in. A number of questions remain largely unanswered, questions of governance and relevance vis-à-vis other market and non-market institutions; the meaning of surveillance notably for the advanced countries, now extending to the "new layer of emerging market economies," and of how the IMF interacts with them.

13. Post-crisis, it is easier to see that the political economy of global relations changed. Gone is the unipolar world dominated by the U.S. and gone, also, the "end of history" with the belief that the Anglo-Saxon centric view of market-dominated politics and policy choice is the only serviceable normative for policy advice. Nevertheless, the substitute configuration has not emerged. The contours may be there but they are still hazy and the new arrangement could take decades to materialize in full form. The new consensus seems to be that, if there is a "winner" in the midst of the generalized losses of the last eighteen months it is China. Its role as a global leader was reinforced by the crisis. More generally, the large emerging market economies gained prominence; thus the role of the G20 over the G7. Whether this is enough to launch a new paradigm is not clear.

14. Even so, the impact on the IMF is certain. Discussions about representation in the Fund were suspended in the heat of the crisis. However, the very approval of the FCL and the recent funding of the Fund by Brazil, China, and Russia are indications that representation is about to change. Quotas will continue to be redistributed, possibly in a more substantive way.

15. What shape for the IMF in the new landscape? Possibly, one with lending in new modalities and with a renewed emphasis on regulation rather than de-regulation; with a reacceptance of the intellectual basis for state-led initiatives and guided by a Board that is less tilted towards G7 decision-making.[3] The latter, of course, could change profoundly the way the IMF does business, hence the pattern of its interactions with member countries.

[3] For now it seems that the G20 will take precedence over the G7. But the assessment may change if the crisis ends sooner rather than later and, in particular, if the G3 emerge relatively unscathed in their institutional makeup and medium-term prospects. The non-G7, G20 members have to come to terms with their new international responsibilities. The danger is that they fail to do so; that they fail to build adequate expertise on the more technical aspects of global issues; that in a rush to resolve bilateral disputes they fail to view these meetings as a means to longer-term national global interests. China alone is certain to be included in the new global leadership. However, China and Japan may continue to build an "East Asian" alliance that aims to replace instead of support the IMF in the region. It is, for example, telling that in this crisis the East Asian economies did not seek support from the IMF. Instead, they quickly voiced mutual support and assistance, whether it was needed or not.

16. Does this change the conclusions of our paper? It does, in ways we cannot yet see, understand and describe, but can sense. Certain aspects, however, remain and others were present already in our analysis.

17. The paper focuses on the "new layer of emerging market economies" and most if not all of the changes at the IMF will share this focus. For example, the FCL was designed precisely with this "new layer" in mind—a way to make lending by the IMF relevant again for this constituency.

18. As we argue in the paper, there was evidence that these countries would be willing to buy a form of "crisis insurance" if the insurance was properly designed and priced—if pooled reserves at the IMF could be used as a near-substitute for the country's reserves, with nearly the same discretion. Nevertheless, discussions on the proposal extended for years. The IMF designed an unwanted product, the Contingent Credit Line (CCL) that relied on old-form ex-ante conditionality with negative signaling (i.e., the likelihood that an application for the CCL could precipitate a crisis that had not yet happened and could not happen if the private capital market remained constructively engaged). It was based on a misinformed view of "moral hazard" that leveraged the role of the IMF as the arbiter of "good" policy—not through general surveillance but through an exam at time of application (a position that, to make matters worse, was not necessarily final but could be appealed through the political process of the G7).

19. These points were made clear to IMF management at technical meetings with country authorities of the "new layer."[4] The issue escalated to meetings of the G20 where there was agreement on the "principles" but not the details. Management was not persuaded and/or incapable of persuading the Board. Ultimately, what changed? Clearly, the near-collapse of the U.S. financial market did. It made the world aware that financial crises are not exclusive to the less advanced economies, though they may be the universal result of lack of adequate regulation, risk management and supervision—issues over which the IMF cannot exercise effective surveillance, or could not at the time.

20. Indeed, it was the US-Federal Reserve that paved the way to the FCL. For the US-Federal Reserve recognized that the post-Lehman surge in the demand for U.S. dollars in systemically important foreign markets was the product of the U.S.'s own crisis. It could not be explained by risk-mitigating flows into the "safe-haven" of the world's reserve currency, alone. From the perspective of the "new layer of emerging market countries," this was the critical step in mitigating contagion from the crisis. It took place in October 2008 when the

[4] For example, at the meeting in Santiago de Chile on April, 25–26, 2007 when then Central Bank Governor, Vittorio Corbo of Chile essentially spelled out and argued for what is now the FCL, including unconditional access to at least if not more than 500 percent of quota (IMF management was then proposing 200 percent with ex-ante review and conditionality).

US-Federal Reserve established the swap lines with Brazil, Hong Kong SAR, Korea, Mexico, and Singapore. Financial markets perceived and priced-in the change immediately. And if the US-Federal Reserve could do it, why could not the IMF? Why did the IMF need to insist on ex-ante conditionality, missions and the other add-ons of the proposed CCL?

21. The US-Federal Reserve accepted what the IMF had not: interdependence. It recognized a set of markets, institutions, incentives and norms for what they were—with warts and quirks and all. Presumably, there was a judgment of adequacy that went together with the urgency; but without judgment of "exemplary behavior." (After all, at that point in time, what was the moral authority of the U.S. to pass judgment on the behavior of others?) Moreover, if Brazil, Korea, and Mexico could be members of the club, membership could be extended more broadly to smaller financial centers with equally recognized adequacy, or better: countries such as Chile, the Czech Republic, and so on down the line.

22. Of course, "membership" presupposes an exchange of information and meeting certain criteria. In the case of the FCL it means formal IMF surveillance, and this brings us back to the main topic of the paper that follows. We note in the paper that one of the current predicaments for successful IMF-member country interactions is the lack of motivation for the "new layer" to engage substantively in surveillance. The incentives are not aligned; at least they were not prior to the FCL. These countries do not contemplate new borrowing from the IMF except in truly exceptional conditions such as those of the FCL. Fundamentally, they seek to emulate the more advanced economies which, largely, dismiss surveillance as a pro-forma exercise. The FCL, however, is based on the last Article IV—which is why it is a positive step for re-aligning IMF-country incentives. Perhaps now this harmless yet seemingly vain exercise (from the country's own perspective) will be seen differently, the gate-keeper to a product the country actually wants. Surveillance now has (and, expectedly, will be perceived to have) a real "value added," not only for the "global commons" but for the country itself.

23. Surveillance remains, nonetheless, a review. And this is a bone of contention, especially for the IMF. Prior to the crisis there was a palpable, documented difference between how the IMF management and staff chose to characterize the surveillance-only mode of interaction with its more fortunate clients and what, in fact, it was. We document this in our paper for the "new layer," and it is documented much more thoroughly in other parts of this evaluation.

24. In the documents we reviewed, staff and management emphasize their role in policy advice. This goes beyond the concluding paragraph on "policy recommendations" in a staff paper or research study. For the IMF, the defining idea is that in exercising surveillance the IMF *influences* policy outcomes. To be clear, because it is important: Influence in the sense of working on specific policies, agreeing or disagreeing with the authorities, and shaping the product which is implemented or submitted for legislative consideration. It is not a general diffuse sense of influence as an intellectual contribution to a wide-ranging debate. It is

commanding a seat at the head-table of policy, a substantial, constructive and consequential dialogue with decisions at the other end. Surveillance goes beyond review work, certainly beyond the kind of "box checking" review and "policy" discussion associated with other potential creditors and/or the rating agencies.

25. This is what it is ***not*** in the case of the advanced economies; a disappointment to management and staff but an accepted fait-accompli, euphemistically described, notably in G20 statements but also at the IMF Board, as "lack of evenhandedness." It is well known that Article IV drills for the G7 countries are, indeed, "writing exercises that produced working papers with a paragraph on policy recommendations." And the concern, of course, was that it was spreading, that it was extending from the advanced economies to the "new layer"—as we found it did, with full awareness by management and staff but without a strategic response.

26. Will this now change? Perhaps it will, but not likely to the full extent of making surveillance work synonymous with policy work. It is to be expected that countries interested in buying insurance à la FCL will care about the marks they get in an Article IV examination. It stands to reason, therefore, that they will be better prepared for the periodic missions and more open to meaningful dialogue. They may even conscientiously choose policies aiming to comply with the insurance and ask advice to that effect. However, if the internal policy-making process fails, and yields bad outcomes through wrong policies, it is unlikely to change for the IMF alone. For the presumption is that in the majority of cases the policies were chosen not out of ignorance or neglect, but for political expediency. In which case, if the country needs IMF funding, as for example Hungary recently did, it negotiates an SBA and accepts the political imposition of ex-ante conditionality. Otherwise it stands by the record of policies taken.

27. Mexico is an interesting example. It was first to apply and receive a precautionary FCL and the insurance helped buttress short-term expectations. Arguably, however, the FCL did not change the IMF's, the market's or the authorities' views of or expectations about medium-term challenges. Furthermore, there is little dissension on what the challenges are. The last Article IV report is a good enough summary: dependence on the U.S. economy (which may be good or bad depending in how you read it), low growth and a lopsided fiscal system with an unusually low level of taxation and, consequently, over-dependence on oil revenues. The FCL came with these challenges and most likely will leave with them. Private think-tanks, the government's own technocracy, market pundits, the rating agencies and even the IMF have made recommendations, to no avail. The recommendations figure prominently in the last Article IV and likely will, and should, figure in the next one. Yet, if past action is

normative, as long as the status prevails, Mexico remains an approved buyer of FCL insurance, even without resolution of these issues.[5]

28. The point is that without an overwhelming need that pushes a country to accept the imposition of political action by the IMF, countries will resist it; they will not accept it, and if they are strong enough to rely on voluntary financing they will reject it. If they are, in addition, part of the "new layer" they will for the most part qualify for the FCL, for being in the "new layer" presupposes relevant institutional depth, financial sophistication and policy capability. The implication, therefore, is that the pattern of interactions with this "new layer" may not change substantively post-FCL.

29. Admittedly, this judgment may be premature. However, thus far, we remain with what we concluded earlier. The presumption that surveillance is policy work is false. It is not a good foundation to build interactions. Why not recognize surveillance as review? A review by an influential opinion maker, invited to opine. Not one among many but the one with unique institutional capabilities for policy analysis, with the accumulated cross-country and historical knowledge of what has and has not worked, with the legitimacy of opining about policies and institutions across the membership. Post-FCL, a visit from this opinion maker has, potentially, more consequence; but still not enough to equate surveillance with policy.

Paulo Vieira da Cunha (July 2009)

[5] There is of course logic to the argument. To maintain the status Mexico will have to rely on growth that re-equilibrates its fiscal position, a reform of the revenue base (taxes and/or the income generating potential of state enterprises) or some of both. The central hypothesis is that it will do so before coming to a crisis. What gives credence to this hypothesis is the strength of its institutions. This may change, of course—but this kind of change is not part of the central hypothesis.

I. Introduction[6]

1. Lending by the IMF increased to levels well beyond its historical average starting in the mid-nineties, notably in the seven years from 1998 to 2004. Lending increased in response to the breakup of the former Soviet Union (FSU) and the transition of the independent states to market economies. It increased further in response to the Asian crisis and the succession of crises that followed in close sequence, stretching all the way to the crisis in Brazil in 2003—a crisis avoided with the help of the IMF. At the start of the new century, the reach of IMF programs was unprecedented; however, the influence of the institution had already diminished. "IMF assistance" had been bundled into larger packages of "crisis rescue" operations organized directly by the G7, G3, or G1. Many of the Eastern European countries were eager to join the EU and turned their attention to Brussels. In East Asia regional forces increased. Albeit still largely ineffective, they began to counterweight the monopoly of a single IMF-managed pool of global reserves. More importantly, for the emerging market economies the reach of private financial markets overstepped the influence of official flows.

2. To date, nearly a decade after the halcyon days of crisis fighting, the effects of IMF assistance are the subject of controversy and heated debate. This is of no immediate concern to us. We accept the view that generally crisis programs were thought to be successful, whether due to the IMF or despite it. Largely, the "crisis countries" moved away swiftly from their crises and from IMF assistance, benefiting from an exceptionally favorable external environment, at least until very recently. They also reaped the rewards of good policies, more effective and credible policy implementation, and the market confidence achieved during their post-crisis adjustment periods.

3. Brazil fits this mould but so do, for example, in varying degrees, Russia, Thailand, Korea, Kazakhstan, Turkey, and Colombia; Mexico and Indonesia somewhat earlier; Chile and Israel earlier still; and several of the Eastern European countries in EU accession mode. Many of these countries went on to achieve investment-grade ranking and nearly all embraced deeper relations with global capital markets, further distancing themselves from the orbit of IMF assistance.

4. The emergence of China and India as major global players completed a layer of middling-to-mid-income emerging market economies that now have a distinct relationship with the IMF. This paper addresses these transitions.

5. While some countries in the layer continue to have formal programs of technical assistance, none borrows from the IMF and all have transited from "program" to

[6] This paper was completed in September 2008. The author is grateful to Alisa Abrams and Roxana Pedraglio for excellent research assistance.

"surveillance-only" status, joining tentatively but with increased assurance the club of creditor-only countries in the membership. Technically, they did not "graduate" from the IMF. In contrast to the World Bank, IMF assistance is by design always open to its members irrespective of their level of income. In practice, however, relations with the IMF changed; and the change in relations brings about a change in the scope, role and focus of the interactions between the IMF management and staff with the respective country authorities.

6. The scope of the interactions changed from policy prescription and design, to policy review and monitoring. The role changed from influential advisor to opinion maker, from the sometime policy maker (with the right to sit at the very table of policy) to one in a crowd of pundits with access to the lower layers of political influence, writing and commenting on current developments. The focus changed from issues of domestic political priority selected and worked on jointly with the authorities, to issues that are politically expedient, included in broader multilateral agendas, and/or of more general analytical and research interest.

7. For a variety of reasons that go beyond but include a desire to gain distance from IMF assistance, countries in this layer built up external reserves and sought greater reliance on self-insurance. Taking advantage of improved fundamentals and reduced vulnerabilities, they expanded access to market-based financing, including in some instances through external bond issuance in local currencies.

8. Without ascribing cause and effect, the two pieces of the puzzle fit together: the drop in lending and the change in IMF-member relations, the rise of this new layer of more self-reliant emerging market economies. Because the changes are recent, it would be rash to treat them as permanent.[7] Probably, one or more countries in the group will have cause to borrow again from the Fund. The tide in the global economy has already turned.

9. Likely, however, aspects of the change will be permanent—and these touch on countries with more developed institutions for macroeconomic management, with enlarged access to market financing, and greater political and economic influence in the global market place. They also concern the large number of countries in the Eastern Europe that are becoming or that aspire to become part of the EU, embracing the Euro and looking to it for macroeconomic guidance and advice.

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[7] A. Ghosh et al (2007). The IMF Working Paper presents two approaches to modeling the use of Fund resources to assess if "the recent decline in IMF credit outstanding represents a temporary phenomenon or a permanent shift owing to improved macroeconomic performance and increased resiliency to shocks among middle-income member countries." The time series behavior of credit outstanding and a two-stage program selection and access model "yield the same conclusion: there appears to be a fundamental shift in the use of IMF resources." The preliminary analysis indicates a considerably lower use of Fund resources over the next few years compared with the recent past (pages 3 and 29).

10. Nor is the emergence of this new layer of countries the only systemic change affecting the identity and consequence of the IMF. In 1946, the IMF was a club of industrialized countries all of them (except for the U.S.) potential debtors from the Fund. It has since become a near-universal institution with a split membership, divided by income levels, their demands from the membership, and the probability of access to the Fund. Countries that have the controlling stake also have the lowest probability of access; and the countries in the new layer aspire to gain their status and influence.

11. In this context, we examine the interactions among the Board, management and staff of the IMF, and the authorities by way of a case study of five "transitioning" countries, mainly through a review of internal documents. Our focus is on what IMF terminology identifies as "the exit process," i.e., how a country terminates a history of conditional use of Fund resources and moves to a "surveillance-only" (Article IV) relationship, expectedly, for several years ahead if not permanently.

12. We consider only mid-income countries or countries that are large enough to be part of the G20 (the low-income G20 members are China, India, and Indonesia); countries that are at or are approaching investment grade; that have substantial exposure to global financial markets. To seek a balanced view across regions and the period of the broader evaluation (2001–08), the sample includes Brazil, Colombia, Indonesia, Kazakhstan, and Lithuania.

13. Our aim is to understand and assess the exit process, how it affects IMF-country interactions, to examine the extent to which a strategic plan for the future relation developed during the exit process.

14. We reach three conclusions. First, there is at the IMF a clear understanding of what the exit process is. A simple count of interventions in documents suggests that of the two parts, the Executive Board on one hand and management and staff on the other, the Board is the most involved in the debate, though not necessarily in the decision. Exit surfaces as a country decision discussed with staff; it is later communicated to the Board. Management and staff follow a well-defined if unwritten protocol dealing with exit. In addressing exit, the main concern is the sustainability of the underlying macroeconomic conditions, the capabilities for macroeconomic management, and, in particular, the external financing position with normal access to international capital markets.

15. The view from the countries is different. To begin with, it is a rare event. Likely, the exit experience is singular or at most repeated once for any group of authorities in office at the time of exit. There is no single process or even a common pattern. We did not examine how the countries reached these decisions. Instead, we arrived at the conclusions from comments in the documents (some of them dated several months after exit) and the record of mission schedules, program proposals and cancellations. The strong indication is that, from the country's perspective, exit is mainly a political not technical decision.

16. Second, at the IMF the concern towards the end of the program period(s) is with ending the program relationship as quickly as possible, provided the macroeconomic conditions support exit. This is especially the case if the last program(s) is a precautionary one.[8] By design, and in practice, precautionary programs aim at and achieve exit. Nevertheless, we found a tension between management and the Board and between staff and management. Staff is more likely to suggest "successor programs" in lieu of prompt endings to program relations.[9] Timing the exit is an important concern of the authorities for obvious political reasons, such as the nearness of elections or concerns about the "autonomy of policy" and "independence from the IMF." It is well documented in staff papers. In two of the five case studies, the intent of the pre-exit program was to bridge a political event; and in one of them, a new program targeted the fallout of a subsequent political event. In another case, the exit program aimed at a political outcome, accession to the EU.

17. Third, although we did not examine the experience with other countries, we could not detect any "special" treatment with this group of countries. In each case, the Board and the staff were clearly aware of the country's position in the group of emerging market economies. Often the discussion included explicit comparisons with other economies in this peer group. Nevertheless, strategic concerns about the IMF relationship with the group, or about the future of the relationship with the group (or, for that matter, about any of the countries in our study), are conspicuously absent in the documentation. ***The exit process does not address the post-exit strategy.***

18. Seen from the perspective of almost any other organization, this finding would be remarkable. If countries are not only "members" of the IMF but also its clients, surely such a loss would call for some "post-exit" strategizing. The question is why not, and we return to it at the concluding section of the paper. It is worth remembering that, regarding the IMF management, the context at the time of these discussions, roughly 2002–06, was one of intense debate about "governance of the IMF," "the role of the IMF" and "the meaning, extent and evenhandedness of IMF surveillance." The formation of this new layer of countries and their exit from the IMF was a much-debated topic. However, the internal documents and the Board discussions we examined do not reflect these debates. Nor do they concern themselves with the scope, role and focus of future IMF-country interactions.

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[8] Equal in all other aspects to a standard arrangement, a precautionary arrangement is one where there is a right though not the ex-ante expectation to borrow. The right to borrow (draw) is conditional on need and on the implementation of specific policies.

[9] We use the term "staff" loosely. Likely, layers of management vetted all the internal documents we reviewed. Thus, more appropriately, the distinction should be between regional and senior management. In general, the extensive practice of management review renders meaningless the distinction between "staff" and "management" reports.

19. What explains this disconnect? Basically, the explanation is strong adherence to internal norms—norms that foresee the exit process. The norm at the IMF is the non-program surveillance-only relation. Lending (i.e., Article V agreements such as the Stand By Arrangement (SBA)) is abnormal, an exception accepted only in crisis (or in anticipation of crisis) and against strict conditionality. Thus, the norm ***is*** the transition back from program to surveillance-only. Surveillance is the paragon, foundational relation of the IMF with its membership. The implicit yet strong understanding at the time of exit is that surveillance is a well-understood, welcomed and sufficient mode of future operation.

20. We have an explanation, a reasonable one anchored in long-standing tradition. Yet it begs the next question: Is this the best way to proceed in today's environment? Has nothing changed with the emergence of this middle layer of countries, a durable change with implications for the role of the IMF in the global economy and financial architecture? There is merit to the disciplined and programmatic approach that guides and, indeed, compels the exit relationship at the IMF. There should be and we find that there is a clear distinction between membership in the IMF and use of Fund resources. That this distinction carries through, as expected, into the pattern of relations and interactions with member countries is not generally recognized or, if it is, it is not viewed as fundamentally important. In our assessment there is a disingenuous suspension of disbelief during the exit process that, ultimately, could and seemingly does weaken future relations.

21. The reality is that a relationship built on "surveillance-only" can (and does) become an excessively formal, distant and lower value-added relationship as, for example, with advanced countries. For them, surveillance is learning about others not about themselves; and, one suspects, this is how the countries in the new layer would like to treat it as well. The question is should it be so? And, if yes, is there a loss? Should we be concerned or, instead, welcome the impeding new configuration with more members distancing themselves from closer IMF advice and policy influence (for instance, China and India have been distant for some time).

22. Consider that as of July 2008, of 183 countries, an estimated 141 (77 percent) had a surveillance-only relationship with the IMF. These countries accounted for over 98 percent of the total world share of PPP-GDP.[10] There were only six mid-income countries with a current IMF program.

23. *Prima facie*, there is a loss. Recent work done at the IMF suggests that there is value in "IMF insurance." Countries should value (because, so the authors suggest, the market does) the IMF "seal of program approval" that comes with precautionary but nevertheless more stringent and potentially conditional access to IMF funding—including policy advice

[10] Calculations by IEO staff based on internal IMF information and databases.

and conditionality.[11] The idea is that, rationally, countries facing a certain threshold of credit risk should want to engage with the IMF in designing precautionary programs at all times. The reality, however, is that instruments such as the Contingent Credit Line (CCL) or the more recently proposed Reserve Augmentation Line (RAL) have yet to be designed in ways that are mutually satisfactory and motivate a demand. Moreover, there may be a loss because the IMF continues to offer policy and analytical expertise that countries and the collective as whole would benefit from.

24. The issue is that, for the governments, there are serious agency problems involved in the IMF relationship, especially in the surveillance-only mode. Is the IMF an advisor to the government responding to its agency and/or, perhaps, a reviewer invited by the government? Certainly, this applies to explicit programs of technical assistance. Alternatively, is the IMF an external participant not only in the discussion but with weight in the outcome of government's decisions? Does it command a seat at the table of sovereign policy?

25. The difference between the former and the latter are the question of influence (does the IMF has a say in the definition of policy?) and the question of agency proper (does the IMF report to the government or to its own management and Board)? And the inference we draw from the current state of affairs is that the agency problems are too complex and/or politically costly to foster a greater demand for active engagement with the IMF under present circumstances. Thus, it appears that the exit process for this new layer of economies will be a transition for the IMF as well, from more to less active engagement on the discussion, design and implementation of policy. Undoubtedly, this will affect the extent and quality of its interactions with member countries.

II. Five Case Studies

A. Approach and Case Selection

26. As shown in Annex 1 Table A.1.1, among the currently defined middle income countries, 49 exited from IMF assistance in the period from 1985 to 2006. For them, upon exit, the periodic Article IV mission with subsequent Board discussion (i.e., surveillance) defined the relationship, although a minority also requested provision of technical assistance. To date, none has returned to the Fund for lending assistance. Around half are now investment grade; 27 (55 percent) exited since 2000.

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[11] A. Ghosh et al (2008). The case for IMF insurance is not clear cut. The study covers the period of crises (1994–2004) and thus fails to consider the impacts in the more benign environment from 2005 to 2007 when, in part due to the external environment, countries increased significantly the extent of self-insurance (reserves accumulation and reduction in net external liabilities). It also fails to consider when countries "graduate" to investment grade and deepen their access to external markets including in the operations of domestic debt.

27. To study and evaluate the exit process we selected 5 of the 49. The time limits of the broader evaluation of the IMF interactions with member countries excluded 22. Among the 27 countries left, we knew from the start that we would be confronting a sizeable volume of information. Our goal was to choose the smallest number of cases to suggest the range of exit experiences in the universe of the new layer of emerging market economies. From discussions with experienced staff at the IMF, we learned that it was important to combine regional representation with crisis and non-crisis situations. Various iterations coalesced in the final list. We first identified three subgroups and then chose countries within them.

28. The first subgroup is from Eastern Europe that now wants to join or has joined the EU: Croatia, Estonia, Latvia, Lithuania, and Romania. They shared similar experiences when they joined the IMF and they now share a special modality of relations with the IMF once the formal process for EU accession begins. With their sights on Europe, their main partner on policy and institutional issues is the EU, possibly the ECB, not the IMF.

29. Among them we chose Lithuania to represent the group. By many accounts, Lithuania was an exemplar situation; a case generally thought by IMF insiders to have worked as well as possible. It is also a good example of the smaller economies.

30. To contrast this experience, we wanted to include a country of the FSU that is not joining the EU. Russia was the obvious candidate but, in fact, considered too complex. The choice fell on Kazakhstan from a subgroup that includes, in addition, Russia and Ukraine.

31. The Asian economies directly involved and affected by the crisis in 1997–98 form another distinct subgroup. Of the five cases (Indonesia, Korea, Malaysia, Philippines, and Thailand), we chose Indonesia because it maintained a program with the IMF until 2003 whilst the others exited earlier or did not have a program at all (Malaysia). Indonesia is a member of the G20 and its external and domestic debt trades actively in global financial markets.

32. The third and last subgroup is the "Western Hemisphere," i.e., Latin American economies. Here we chose to examine Brazil and Colombia. The other members of this subgroup (in our layer of interest) are Argentina, Chile, Mexico, and Peru. Argentina is a controversial case, already examined by the IEO.[12] Chile exited from the IMF before 2000, the very lowest bound year in our period, Mexico just exited at the end of 2000 and Peru has an ongoing program with the IMF.

33. The empirical basis for this evaluation is a mixture of quantitative evidence drawn from close reading and classification of IMF documents and qualitative case studies based on desk reviews. The specific time frame changes from country to country. Within the 2000–07

[12] See IEO (2004), also available at http://www.ieo-imf.org/eval/complete/eval_07292004.html.

boundaries, it encompasses the 5-year period spanning two years prior to and two years after the termination of the last IMF program.

34. The documents are the minutes of meetings of the Executive Board, staff reports and papers, as well as internal office memoranda. Altogether, we examined 181 documents, including 40 Executive Board meeting minutes (22 percent), and 141 reports issued to the Board and/or internal to the management and staff of the IMF (78 percent).

35. In reading the documents, we grouped our observations about the exit process into six categories. We then proceeded to classify each document into one of two possible dichotomous outcomes: Did (1) the document or did it not (0) address one of the possible categories. This generated a string of counts for each category that could be broken down by document type and configured into simple tables counting the yes (1) and no (0) observations.[13] While this level of detail was helpful in our understanding of the overall assessment of the process, to describe some of its salient aspects (as reflected in Board or Staff documents) it was useful to aggregate the original six into three categories:

- Exit 1 when there is explicit recognition and/or discussion of exit: "graduation" and/or transition to a "surveillance-only" relationship.
- Exit 2 when there is a discussion about exit with reference to the post-exit process/relationship.
- Exit 3 is the combination of the two.

36. In addition to the dichotomies about type of exit we considered four additional dichotomies across the five countries: the nature of the document examined (Board minutes or staff); whether we were dealing with the last program before exit, or the last review in that last program; whether the program was precautionary; and whether it dealt by design with a political transition.

B. Findings

37. Annex 1 Tables A.1.2–A.1.5 summarize the quantitative results based on counts extracted from the documents following the procedure outlined above. As the tables demonstrate, consideration of exit is a repeated occurrence in the documents. Annex 1 Table A.1.2 shows the sub-sample extracted from the minutes of Board meetings and, as shown in the last column, exit-related issues were discussed in half of the 40 documents

[13] For an extensive presentation of the statistical properties of count-data models, and a discussion of the econometric techniques that can be applied to this kind of data, with their limitations, see G. Maddala (1983). An updated textbook presentation, with extensions and an ample discussion of the properties of applicable statistical tests can be found in: W. Greene (2008).

reviewed. The same column in Annex 1 Table A.1.3 shows that exit considerations appeared in 38 percent of the 141 staff documents sent to the Board or prepared for internal review in anticipation of the Board meetings.

38. The frequency of Executive Board meetings varied between countries. In the respective 5-year desk review periods, the Board met 12 times to discuss Brazil, 11 times to discuss Indonesia, 6 times each for Colombia and Lithuania, and 5 times for Kazakhstan. The Board discussions for Brazil and Indonesia drew the greatest "quality" attention, at least as indicated by the imperfect indicator of the number of Executive Directors (EDs) present at the meeting.[14] The Managing Director chaired 2 of the 12 meetings for Brazil and 2 of the 5 meetings for Kazakhstan. He was not noted as being present at the Board for any of the other 36 meetings.

39. At the Executive Board meetings, questions of exit—as recorded in the minutes—came up much more frequently for Indonesia (in 8 out of 11 meetings) than for Kazakhstan (in only one of the five meetings). Kazakhstan stands out for the low incidence of debates about the exit process, a point we will return to in our more general findings. Colombia had two precautionary programs before exit and, perhaps because it agreed with the shape and speed of the process, the Board chose to discuss it in only two of the six occasions when it met to discuss the country. The Board discussed exit in three out of the six meetings for Lithuania; and Lithuania had, arguably, the most predictable exit given its precautionary Stand-By Arrangement from 2000–03 leading to EU membership in 2004. The Board discussed exit in six of the 12 meetings for Brazil, expectedly more so in the latter meetings (but not at all in the last meeting before exit).

40. The numbers in Annex 1 Table A.1.3 indicate that cross-country differences in the incidence of exit discussions are smaller across the 141 staff documents and memoranda. Indonesia again stands out as the case with the highest frequency (56 percent). Brazil, Colombia, and Kazakhstan bunch around the median (39 percent), and Lithuania is lower at 29 percent (within one standard deviation of the mean). In these documents, Kazakhstan stands out for the extensive reference to the future of the relationship (37 percent of the documents examined), a distinction it shares with Brazil (39 percent). Colombia, on the other hand, stands out as a case without a reference in staff papers to issues of the relationship after exit.

41. A more nuanced and interesting picture emerges from separating instances when there was explicit discussion of exit (including graduation and/or transition), i.e., Exit 1, and

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[14] The data is in Annex 1 Table A.1.2. For Brazil (the second row in the table), for example, given 12 meetings and 24 ED Chairs, the maximum possible number of EDs present at the meetings would have been 288. The total number of ED presences actually registered during the 12 meetings was 150, or 52 percent of the total, with an average of 12.5 EDs per meeting.

discussion about the post-exit process/relationship, i.e., Exit 2. The data is shown in Annex 1 Table A.1.4a. In the sample of all documents, the explicit discussion of exit was somewhat more frequent (26 percent) than that of future relations (23 percent). Explicit discussion of exit or graduation, Exit 1, was more prevalent in Board meetings than in staff papers (50 percent vs. 19 percent). The latter, however, were more likely to discuss issues of future relations and other aspects related to but not concerning the exit process itself, Exit 2 (28 percent vs. 5 percent).

42. As shown in the last row of Annex 1 Table A.1.4a, the distinction between what was discussed in the minutes of Board discussions (the row YES in the Table) and what was discussed in the other documents, i.e., staff papers (the row NO in the Table), is statistically significant—treating in isolation Exit 1 (explicit discussion of exit) and Exit 2 (explicit discussion of future relations).[15] The Board was more likely to address directly the question of exit and the staff that of future relations. For the sample as a whole and given each of the 5-year windows, the Executive Board met 40 times to discuss country-specific issues and, as we noted above, it discussed exit in 20 of those meetings. In only two meetings, it discussed the post-exit (Exit 2) relationship (Colombia). Within the sample of 141 staff papers and internal memoranda, however, 39 (28 percent of the total) addressed in some way the post-exit discussion. When combining the two (Exit 3) the distinction loses significance.

43. Annex 1 Table A.1.4b explores the exit process from a different perspective. We separated the documents examined not by type of document (Executive Board Minutes vs. staff papers) but along four additional dichotomies: whether the program was precautionary or not; covered an explicit political transition (e.g., Brazil in 2002–03); was the last program before "graduation;" or the discussion and/or document was about the last review of the last program.

44. As shown, the results differ between Exit 1 and 2. For Exit 1 (explicit discussion of exit) it matters whether it is a political transition and the last review of the last program. Curiously, discussion of exit (at the Executive Board meetings and/or in the other documents) was less prevalent in programs that addressed political transitions and during the meeting of (or in preparation for) the last review of the pre-graduation program. For Exit 2 (post-exit discussions) it matters whether the program was precautionary; in this case, the documents were less likely to discuss the post-exit relationship. The other dichotomies are not statistically significant though, interestingly, they are in the same direction. In general, for Exit 1 and 2, the discussion of exit was less prevalent during the last review, when the program was precautionary, and when it dealt with a political transition.

[15] The test is based on the non-parametric Pearson Chi-Square statistic. A number followed by three asterisks (***) is significant at least at the 1 percent level; two asterisks (**) the 5 percent level; and one asterisk (*) 10 percent level.

45. The analyses in Annex 1 Tables A.1.4a and A.1.4b fail to consider differences across countries. To consider them explicitly (i.e., to make the previous dicotomies conditional on the country) we ran a probit regression pairing the variables for document type, last review, last program, precautionary, political transition and country dichotomies against either Exit 1 or Exit 2.[16] In the analogue to the language of statistical regression analysis, Exit is the left-hand-side "dependent" variable and the other variables, the right-hand-side "explanatory" variables. Since the dependent variable is constrained to the 0-1 interval, and since the ratio of the number of observations of the dependent variable equal to 1 over the total number of observations can be interpreted as the probability that Exit was discussed, it is possible to interpret the probit outcome as the estimated probability that Exit was discussed. Thus, if the outcome of the analysis is statistically significant we could say, with some assurance, that the variables considered satisfactorily "explain" the discussion of Exit in the documents.[17] The results are in Annex 1 Table A.1.5.

46. Turning to the Table, what the results show is that although the decompositions are statistically significant (as measured, for example, by the likelihood ratio or LR statistic which is significant at a confidence interval smaller than 1 percent) the total "explained" variance using EXIT 1 and EXIT 2 as dependent variables is low, in the order of 18 percent. Nevertheless, in decomposing the 18 percent "explained," the influence of certain variables is quite systematic, or significant (as measure by the z-statistic which is the ratio of the estimated coefficient and its asymptotic standard error). For EXIT 1, whether a document was the record of Board Discussions ("document"), or not; whether it concerned the last Article IV review before exit ("last review'), or not; whether it was about Colombia,

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[16] A probit analysis of this kind is nothing more than an analysis of variance across the cells of a table, where all the entries are binary, i.e., take a value of 1 (if the condition under examination is present, for example, the document did discuss exit) or 0 (the document did not discuss exit). Consider a simple 2x2 table produced from two variables, on the horizontal axis "exit" (1 if the document discussed exit, 0 otherwise) and on the vertical axis "country" (1 if the country is Colombia, 0 if it is any other country). Of the four cells, the one with 1 in both entries would record the number of documents about Colombia that discussed exit. Expressing it as a ratio of the total documents examined, the value of this cell can be interpreted as the probability of "Colombia exit discussion" in the sample of documents. Of course, there are three other probabilities in the table: no exit discussion among documents about Colombia, exit discussion but not in Colombia, no exit discussion and not in Colombia. Statistical tests can gage the significance of differences between cells (essentially, the decomposition of variance within and between cells). The table can be extended to consider multiple variables, for example, a list of countries that exhausts all possibilities in the sample. And, of import, the entries in the table can be made conditional on the values of a given set of variables; i.e., the residual variance within a given cell (or vector of cells) that is left after the variance between all other cells have been taken into account. In this case, it is analogous to the usual linear regression with a "dependent" variable "explained" by a set of "independent" variables. Only in this case the concept of independence is different, and the "explained" variable is some probability, for example, the probability that a document discussed exit.

[17] The model is non-linear and heteroskedastic. A simple linear regression would place inappropriate restrictions on the residuals of the model. It should be estimated, therefore, with maximum likelihood estimators. We used the routine built into the EVIEWS software. There is no universally accepted goodness-of-fit measure (pseudo R^2) for probit. EVIEWS recommends McFadden's statistic (J. Housman and D. (1984), 1219-40. Significance can be tested using the likelihood ratio (LR) statistic, with the usual interpretation.

Indonesia, or Lithuania, or not. For EXIT 2: document; whether it dealt with a precautionary program (“precautionary”), or not; Brazil and Lithuania.

47. In other words, for Exit 1 (explicit discussion of exit) country differences matter; they are significant and are quantitatively important. The probability that a document addresses exit was higher in documents for Colombia, Indonesia, and Lithuania than for Brazil and Kazakhstan, even after considering other differences. The probability was higher still, significantly, for all countries if the document was about the last review of a program, and even higher, significantly, if the document in question was the minutes of an Executive Board meeting.

48. Regarding Exit 2 (post-exit discussion), the probability that documents tackled the issue was significantly lower for Brazil and Lithuania, and in all instances with precautionary programs and during Executive Board meetings, was reflected in their minutes. It was, however, higher during last reviews.

49. In sum, exit was an important concern in the documents examined. Although the evidence varies markedly across countries and document type, (Board minutes vs. staff papers) and sometimes significantly, a consistent pattern emerges. The Board took the exit decision as a given but discussed it more assiduously (and more candidly). The probability that an exit program would be discussed increased with programs that built a political bridge to exit; though, given country differences, the effect was not statistically significant in the sample. It fell significantly, *ceteris paribus*, if the program was precautionary (because ex-ante the intent of the program was exit). Considerations about the post-exit relationship were also relatively abundant and, as expected, more frequent in documents about the last review of the last program. In sum, the evidence suggests a well-managed, predictable, and, on balance, habitual process. The following section discusses further qualitative findings.

III. The Exit Process

50. Beyond the numerical regularities, what does the evidence in the five cases studies tell us about exit and the transition to surveillance-only? We single out four main results.

The norm

(i) There is a distinct, well known and respected internal protocol followed at the IMF for the exit process. The protocol is unwritten and defined by custom rather than specific guidelines. The evidence suggests that not all cases follow a common approach with similar procedures. On the contrary, we found significant variances even in our limited five-country sample.

(ii) Precautionary programs are a common instrument of the exit process (and in all cases but one—Indonesia—part or the entire programmed amount for the last agreement remained undisbursed). We did not find, however, evidence of a distinct two-track approach to exit between countries with or without precautionary programs.[18]

(iii) Management, staff and especially the Board welcome the end of program assistance and generally praise the return to a "surveillance-only" relationship. While the Board is apt to discuss exit more broadly and frequently than the staff (at least in documents), we did not find evidence that it takes a leadership role on exit decisions. On the contrary, the evidence suggests that exit is primarily a country decision, discussed with staff and communicated to the Board.

(iv) The country-IMF relationship changes with the end of Fund assistance (exit). The change is abrupt and noticeable already in the first post-graduation interaction, including the PPM period (in those instances where a PPM program existed). The documentation we examined is largely standardized and written in a relatively uniform style and presentation. This is, of course, much more so in the case of staff papers that in Board minutes. Nevertheless, as reflected in the official documents the change is less evident than as perceived from the country perspective (and noted later in staff papers and Board meetings). The change is in one direction, towards a weaker (less frequent and intense) and influential relationship. Of the five cases, it is markedly so in three: Brazil, Indonesia, and Kazakhstan, in part because the relationship with these countries was more intense and/or challenging before exit.

51. Section 7 of Article V of the Articles of Agreement lays out the fundamental logic: UFR is exceptional and should terminate as soon as the balance of payments condition that prompted access is resolved. The normal relationship between the Fund and the membership is a non-borrowing relationship through the conditions laid out in Article IV (and the subsequent understanding of what surveillance is). By design, and as made explicit in the Articles of Agreement, any member's UFR is always exceptional and temporary.[19] Exit from Fund assistance (from UFR, to be precise) is the norm. As noted in IEO's report on the *Evaluation of Prolonged Use of IMF Resources:*

> "In the early 1980s, it became standard requirement for UFR staff reports to include a medium-term scenario, in order to identify ex ante cases where significant balance of payments gaps could be expected to persist

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[18] When looking at the history of the pre-exit lending arrangements (and excluding PRGF-eligible countries), for programs that expired between January 1992 and December 1996 (and even for the ones that expired before this range), all or part of the amount agreed was drawn. However, for programs that expired between January 1997 and December 2001, 5 out of 12 programs were, in effect, precautionary without a drawdown; and for the period between January 2002 and December 2006, the figure was 9 out of 18.

[19] See M. Guitián (1992).

> over the foreseeable future. Subsequently, IMF staff was further requested to foresee a time frame for the disengagement of the Fund …"[20]

52. Conceptually, it is possible to distinguish between two types of exit. One is a conditional exit with the expectation that the country will/is likely to come back for assistance in the near future. Another is exit in the sense we are interested in, implying a shift in the status of the country from borrower to creditor in the Fund. Of course, any member can come back to the Fund. Yet, the ex-ante expectation in the second type of exit is that the country will not; and it is in this sense that the country "graduates" from IMF assistance. Brazil in the 1980s and most recently is a case in point, and it is similarly so for the other case studies.

53. In practice, however, the distinction is not as clear and, in the event, it is not relevant in the documents we examined. In a disciplined way, delimited by past practice, staff, management and Board approach exit as the anticipated and expected outcome. They follow a regular if not uniform set of procedures, disrupted occasionally by unexpected reactions from the countries themselves.

54. This is especially the case in countries with precautionary last programs and notably so in the case of ***Lithuania*** where accession to the EU is, in fact, the reason for the last program (see Box 1 below and the timeline in Annex 2 Table A.2.5).[21] Against this general finding, Brazil, Indonesia, and Kazakhstan show interesting contrasts.

Brazil

55. Brazil is in many ways the archetypical example of the new layer of countries that interests us in this study. Brazil emerged post-2003 as a major player in global financial markets having had a history of turbulence and macroeconomic mismanagement that included several failed IMF programs in the 1970s and 1980s, a currency crisis in early 1999, and a confidence crisis in late 2002. The sequence of IMF programs that ended in March 2005 was exceptional in many ways. The large size of the programs and the close involvement of the U.S. Treasury carried through and topped the pattern of G7 "burden sharing" that began 10 years earlier with the Mexican "rescue package" of 1995. However, unlike the controversial experience with Asia during its crisis and, subsequently and with many more critics, with Argentina, the IMF program in Brazil is a recognized success story.

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[20] IEO (2002), p. 36.

[21] In August 2001, the Board approved a new 18-month precautionary SBA for SDR 86.5 million that would end a decade-long period of IMF assistance (Lithuania joined the IMF in July 1992). The statement by Mr. Lehmussaari, Executive Director for the Republic of Lithuania of August 31, 2001 on the request of the SBA stated that "A new precautionary Stand-By Arrangement oriented towards achieving sustainable growth and creating greater employment opportunities will enhance stability and will serve as a basis for Pre-accession Economic Program that is to be submitted to the European Commission in the near future." See http://www.imf.org/external/pubs/cat/longres.cfm?sk=15363.0.

Certainly, based on the evidence of the many documents examined, management, staff and the Board of the IMF think it so.

Box 1. Lithuania: The Exit Process

Lithuania joined the IMF in July 1992 and had a Stand-By Arrangement in place by October 1992. A year later, in October 1993, a Systemic Transformation Facility replaced and cancelled the first SBA. In October 1994, Lithuania agreed on a three-year Extended Fund Facility (EFF) with the IMF. Previously, it had introduced a currency board arrangement on April 1994 pegging the Litas to the U.S. dollar. With turmoil in Russia, Lithuania experienced a financial crisis in 1998–99. It sought and received a one-year Precautionary Stand-By Credit in March 2000, ahead of crucial parliamentary elections held in October of the same year.

2000–04 was a period of robust non-inflationary growth, which bolstered Lithuania's resolve to join the EU. It joined the WTO in May 2001 (with more than half of the nation's exports bound for EU countries) and to assist in the membership process, it entered into a second Precautionary Stand-By Credit with the IMF in August 2001—at the recommendation of the EU. In February 2002, the Litas was pegged to the Euro. The Precautionary Agreement expired in March 2003 and Lithuania acceded to the European Union in May 2004. Presidential and parliamentary elections in June 2004 ratified the move to closer ties with Europe. That month, Lithuania entered the Exchange Rate Mechanism (ERM-II), thereby signaling its intention to adopt the Euro in early 2007.

We conducted a desk review of Executive Board documents, staff reports and papers covering two years prior and following graduation. Overall, there was only a moderate amount of evidence during this period in reference to the transition; and of the total amount, a substantial portion was post-graduation. Unlike other countries examined during the desk review, the Executive Board was not particularly vocal in the case of Lithuania. The documents conveyed a positive, constructive relationship between the Fund and Lithuania during this period, and anticipated a similar type of relationship for future years to come. At the Board, the authorities expressed support and recognition of the work of the IMF and the framework of precautionary SBAs. The second precautionary Stand-By Arrangement served as a basis for the Pre-accession Economic Program submitted to the European Commission in October 2001.

Evidence revealed negligible reference to an exit program and few instructions to discuss future relations; to our knowledge, the IMF did not prepare a plan for post-program relations prior to graduation. There were suggestions to monitor certain macroeconomic and related institutional concerns, presumably in the context of a traditional Article IV review. There were also requests for analytical assistance following graduation.

56. Written at the end of November of 2003, the Letter of Intent of the Brazilian authorities for the final IMF program explicitly linked the requested 15-month extension of the soon-expiring SBA to exit, in March 2005. The program was to be precautionary and final.[22] See Box 2, and the Brazil timeline in Annex 2 Table A.2.1 for a succinct description of the main features of the exit process.

57. Of course, things could change between intent in November 2003 and performance in March 2005—and they did, in this case for the better. The authorities waited for the near

[22] The letter, which was published, states in the third paragraph, "We should emphasize … that we do not intend to make any further purchases under the arrangement, and that the present request for extension is part of our strategy to exit from Fund support." See http://www.imf.org/external/np/loi/2003/bra/04/index.htm.

conclusion of the program to make their views known officially to the IMF. However, already a year earlier they began to treat the possibility of a new program as an "in the money" option that could wait to be exercised. Meanwhile, staff documents show that the IMF was seriously contemplating and pursuing plans for a "successor program."[23]

Box 2. Brazil: The Exit Process

From the end of 1998 until the beginning of 2005, Brazil was continuously engaged in a sequence of Fund programs. The last Stand-by Arrangement (SBA) expired in March 2005. It was an unusual and innovative arrangement designed explicitly to buttress confidence in macroeconomic management during a period of political transition. It pre-committed the incoming administration to an institutional framework and a set of policies and targets that were consistent with and would enhance the successful implementation of policy achieved during the previous SBAs. Considered a success by all the relevant parts, the program helped preserve and reinforce a framework for policy that sustains growth with stability to this day.

Set against contagion from the Argentinean crisis of 2001 and a homegrown crisis in energy supply with rationing and a significant supply shock, the 2002 presidential election evolved into a bipolar dispute between an increasingly less popular situation candidate and the charismatic leader of the opposition *Partido dos Trabalhadores* (PT), Lula da Silva. Four months ahead of the election, Lula's campaign issued a statement renouncing parts of the PT's economic program (including unilateral debt default). The statement reaffirmed the candidate's commitment to policies for preserving low inflation and sustaining a primary fiscal surplus large enough to stabilize the ratio of public debt to GDP. The statement, however, failed to tranquilize domestic and foreign investors. Fearing uncertainty, they rushed to exit Brazilian assets and, in the extreme, refused to rollover domestic public debt instruments with maturities extending beyond December 2002. As the currency devalued, the debt burden escalated to alarming proportions, driven by the large stock of currency-indexed debt. A major financial crisis threatened the next administration. In this context, then Finance Minister Pedro Malan coordinated a new program with the IMF—agreed with all candidates and binding for the first year of the next administration. After Mr. Lula da Silva took office in January 2003, there were discussions for a new arrangement. Instead, there was agreement on an extension and augmentation of the existing precautionary arrangement to March 2005.

The authorities waited until the expiration of the last program to make explicit their intention to exit. By then, supported by sound policies and propelled by a favorable external environment with ample and cheap access to funding the economy had raced ahead from the set back of 2002–03. They considered exiting IMF assistance as early as in October 2003, however. Conceived as insurance against their own actions, the IMF program was never fully digested by the upper echelons of the new administration.

In December 2005, the Board discussed a staff report on proposed Post-Program Monitoring Discussions (PPM). A few days later, the authorities announced the pre-payment of outstanding obligations to the Fund. With ample reserves, the reduction in debt service was well justified -- and, at that point, the authorities' relations with the IMF changed. They remained cordial but distant. The purpose and practice was to preserve and make more obvious to the external public the image of self-sufficiency without IMF involvement in the definition and implementation of policy.

[23] From the IMF's perspective, the documentary evidence seems to indicate that the critical period for considering Brazil's exit began in October 2003 and continued through three phases. The first phase began with the fifth review of the exiting SBA, the discussion and eventual approval of a new arrangement by the Board. The agreed extension of 15 months and augmentation of the precautionary SBA was treated as part of the exit strategy from Fund assistance. The LOI of November 21, 2003 is available on the external website. See Footnote 21. With the extension and enlargement in place, the second phase of the exit process began with the ninth SBA review process. Thoughts were given to keep options open and discuss a possible successor arrangement. The third and final phase started with the tenth and final review process of the SBA with a potential arrangement in mind. It was clear by then, however, that the authorities were not interested in a new program. In fact, soon they would start to pre-pay the debt to the Fund and exit de facto from IMF assistance.

58. Without this program, the IMF reacted by resolutely tracking the scheduled PPM exercise. The stated intent was to continue to review, design, and implement policy. However, a December 2005 Staff Report suggests, and the staff confirmed at the subsequent Board meeting, that relations with the authorities, though cordial, had changed. In the midst of a political crisis that would soon lead to a change of power at the Ministry of Finance, the fiscal authorities complied reluctantly with the staff's wish to discuss details of the next year's budget and of the paralyzed policy agenda. At the central bank, the view was that the IMF program was done and over. The concern was to speed up the prepayment of the IMF debt, build reserves, and continue to construct an image of autonomy, external and domestic. Effectively, the exercise became a formality and ended prematurely with the prepayment of the debt to the Fund in two installments in June and December 2005.

Kazakhstan

59. Kazakhstan's exit was a messy affair. Brazil may have rushed to exit from the IMF and may have misled the IMF in its intentions about timing; however, compared to Kazakhstan's the decision was bilateral and considered. See Box 3 and the Kazakhstan time line in Annex 2 Table A.2.4 for a succinct description of the main features of the exit process.

60. IMF relations began with an SBA agreed in 1996 followed by an EFF arrangement that became inoperative in 1998 and a decision to go to a new EFF in December 1999, which itself became inoperative early in 2000 and cancelled, finally, in February 2002. The first EFF had only one purchase and the second, none. The authorities did not complete any of the reviews under the second EFF.[24]

[24] The Staff Report for the 2000 Article IV Consultation is not available on the external web but its related Public Information Notice (PIN) No. 00/109 December 18, 2000 states that "Directors urged the authorities to take the steps necessary to complete the first review under the EFF. In particular, they noted the need to revive structural reforms, to ensure greater transparency in the linkages of the oil sector with the rest of the economy, and to agree with the staff on a suitable macroeconomic framework for 2001." See http://www.imf.org/external/np/sec/pn/2000/pn00109.htm. The Staff Report for the 2001 Article IV Consultation notes that "While considerable progress has occurred in 2001 in addressing the issues that held up the first review under the EFF, notably the macro framework and transparency issues, the arrangement is not operative and completion of the first review is not contemplated. The authorities are considering the staff's recommendation to cancel the EFF. They indicated the possibility of a request for a precautionary stand-by arrangement." See http://www.imf.org/external/pubs/cat/longres.cfm?sk=15730.0. The Staff Report for the 2003 Article IV Consultation notes that the EFF "was canceled in February 2002…Discussions on a possible precautionary stand-by arrangement took place in spring and summer 2002, but were discontinued because of the absence of a prospective financing need." See http://www.imf.org/external/pubs/cat/longres.cfm?sk=16724.0.

Box 3. Kazakhstan: The Exit Process

Kazakhstan joined the IMF on July 1992 and a year later, in the midst of the severe disruptions in trade and payments arrangements caused inter-alia by the collapse of the Ruble zone, came to agreement on a Systemic Transformation Facility. On January 1994, the IMF approved a sixteen-month SBA, less than half of which was drawn, and on June 1995 another one-year SBA, all of which was drawn. A three-year EFF followed; approved on July 1996. Half of it was drawn. The sixth review under the program was not completed and the EFF expired on July 1999. A second three-year EFF followed, approved on December 1999. The authorities treated this EFF arrangement as precautionary and no amount was drawn. No review was completed and the program became inoperative soon after its approval.

Throughout the early and mid-1990s, Kazakhstan and the Fund were engaged in an intense relationship to support the country's transition efforts, promote structural reforms, and build up institutions for fiscal and monetary policies. At the time, activity collapsed, the country faced a binding external constraint, and future developments were unclear. The development of the oil industry changed the outlook. Growth resurged and the country amassed large external reserves. In May 2000, Kazakhstan repaid all outstanding Fund obligations. In 2002, the U.S. granted market economy status under the trade law and Kazakhstan's public external debt received investment-grade credit rating.

A desk review of Executive Board and internal documents for the period 2000–04 evinced that graduation and transition to surveillance-only was not part of a planned or clear strategy. In practice, Kazakhstan was in a surveillance relationship with the Fund since the first EFF became inoperative in 1998. In 2000 and 2001, there were discussions on reactivating the second EFF, on providing the World Bank with a comfort letter, on canceling the second EFF, and on requesting a precautionary SBA. None came to fruition. Finally, on February 2002, the authorities cancelled the second EFF and discussions for another arrangement with the Fund lost momentum. In August of the same year, negotiations on program lending with the World Bank came to a halt.

In the documents examined, there are few references to the post-graduation relationship, notably before the collapse of relations in 2004. The Executive Board was silent. It was not until two years after the cancellation of the EFF and in the context of a brief ex-post assessment (EPA) that was part of the 2004 AIV consultation that staff mentioned that Kazakhstan would not request a program in the foreseeable future. At the Board meeting held a month later, a staff representative mentioned for the first time that Kazakhstan had "successfully graduated" from the use of Fund resources. On that occasion, the Board raised concerns about the format of the EPA and called for a more detailed presentation of the issues that characterized the relationship between the Fund and the authorities but did not elaborate on Kazakhstan's de facto graduation. It seems that the staff's pursuit of a program delayed exit, given the staff's concern that surveillance alone was not be able to signal its views on the macroeconomic framework to the private sector, official creditors, and other multilaterals. There were no discussions of future relations with the Fund other than surveillance. There were no discussions of future ways of engagement of the Fund after the authorities mentioned that they would not request another program.

61. With the development of the oil industry, Kazakhstan has had no external funding gap since 1998. Growth recovered in 1999 and accelerated thereafter, and inflation brought under control. In May 2000, it repaid its debt to the Fund and essentially exited from IMF assistance. The long inoperative EFF program survived nonetheless. Some officials continued to signal, inconsistently, in the direction of another program, or a revived program. In retrospect, however, it appears from internal documents that in the new oil-rich situation the intent to have an IMF agreement was never a consensus or even principal view in government.

62. Belated and offhandedly, the IMF recognized Kazakhstan's "graduation" two years after its de facto exit from IMF assistance. The IMF ended the position of the Resident Representative in August 2003.[25] In June 2004, management acknowledged that "no use of Fund resources is expected over the foreseeable future."[26] In July 2004, during Board discussions of an internal assessment of the IMF's work in Kazakhstan, staff and management recognized that Kazakhstan is a special case; that it has performed well over the past few years and that, in conclusion, it had graduated successfully from the use of Fund resources."[27]

Indonesia

63. Indonesia was the last of the East Asian "crisis" countries to exit from IMF post-crisis assistance. Its return to UFR after ending a first round of programs in the mid-1970s was politically challenging at home and, perhaps because of this, partial in terms of policy commitment and accomplishments. Despite seven years of continuous programs, at the final review of the last program in December 2003, there were doubts at the Board if this would indeed be a case of exit with "graduation" or with a likely return to UFR, a few years down the line. The closeness to the Presidential elections in April 2004 heightened the sense of uncertainty. See Box 4 and the Indonesia timeline in Annex 2 Table A.2.3 for a succinct description of the main features of the exit process.

64. What made exit possible was the government's preparation of a policy White Paper outlining the basic approach of macroeconomic policy. The paper and its official sanction by the President and congress provided guidance and ownership to the authorities, comfort for the IMF, and reassurance to markets. Although used as a signal of policy autonomy post-exit, it contained many of the recommendations and suggestions made by the IMF. Moreover, although the authorities resisted at first a post-exit relationship with the IMF through PPM as an instrument to maintain good policies or a close dialogue with the Fund, they concluded five reviews through May 2006.[28] The PPM period included the implementation of an

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[25] See PIN 03/33, March 11, 2003. http://www.imf.org/external/np/sec/pr/2003/pr0333.htm.

[26] The Staff Report for the 2004 Article IV Consultation states that "In view of the country's very strong balance of payments position, it is not expected that Kazakhstan will request the use of Fund resources over the foreseeable future." See http://www.imf.org/external/pubs/cat/longres.cfm?sk=17811.0.

[27] There were some differences in views regarding the inclusion of Kazakhstan as a prolonged user of Fund resources and the format for such assessment.

[28] The Staff Paper produced for the tenth review under the EFF noted that "To help meet the challenge of maintaining market confidence as the Fund arrangement expires and the elections approach, the authorities decided that they will enter into post-program monitoring (PPM), and have issued a 'White Paper' outlining their economic strategy. The staff has reiterated its support of the government's decision, in the absence of an immediate balance of payments need, and will maintain a close policy dialogue in the context of PPM…The staff supports the authorities' decision to graduate from exceptional financing when the current arrangement expires ..." See http://www.imf.org/external/pubs/cat/longres.cfm?sk=17056.0. Earlier, in June 2003 at the time

(continued…)

inflation-targeting regime in 2005. By end-2006 and notwithstanding a series of devastating natural and terrorist disasters, Indonesia had fully pre-paid its outstanding obligations to the IMF, significantly increased its credit rating in capital markets and otherwise marked with assurance its exit from the IMF.

Box 4. Indonesia: The Exit Process

Indonesia adopted a Fund program in 1997 in response to the Asian crisis; and in 2003, the country was the last in the region to end its post-crisis program. Initially the IMF extended a three-year Stand-By Credit, cancelled and replaced in 1998 by an Extended Fund Facility (EFF) incorporating a wide-ranging program of structural reforms. In 2000, a second EFF followed. On January 2001, Indonesia underwent its “Big Bang” fiscal decentralization. Investment growth fell sharply due to political uncertainty, currency volatility, negative capital flows, and lagging policy reforms; and the IFC suspended new investments for one year. In 2002, there was greater political stability and steadier progress in the government's macroeconomic program. The government released its White Paper on Public Financial Management and the IMF approved a one-year EFF extension. In 2003, as part of an exit strategy, the country released an Economic Policy Package White Paper, a government-owned program and Presidential Directive designed to focus on sustaining macroeconomic stability and countering financing and credibility gap challenges. In August 2003, after considerable discussion, the Indonesian authorities announced their decision to enter into Post-Program Monitoring (PPM) discussions with the IMF following the country’s graduation in December 2003, ahead of Presidential, national legislature and regional representative council elections.

The PPM phase continued until May 2006 throughout which time Indonesia experienced a number of disasters, including the Aceh Tsunami, Nias Earthquake, Bali terrorist bombings, Yogyakarta/Central Java Earthquake, and the West Java Tsunami. Bank Indonesia introduced inflation targeting in 2005 and the IMF provided technical assistance in the areas of tax and customs administration, public expenditure management, banking system supervision, and legal reform. Indonesia completed advance repayment of half of its obligations in June and the remainder in October 2006.

A desk review of Executive Board documents, staff reports and papers covering two years prior and following graduation, as well as office memoranda for a latter part of this period, revealed significant discussion by Directors regarding the transition. The most prevalent topics included concern over the unfinished reform agenda prior to exit; acknowledgment of the vocal domestic debate and the question amongst Directors over whether the country should exit or continue; the need for an exit strategy, recommendations, and an analysis of the risks of select strategies; program results; whether the country should enter into PPM, early repurchase trade-offs, and post-program/PPM outcomes; future direction/relationship with the client; and directives to staff for post-program technical assistance and policy dialogue. The volume of evidence in staff reports, papers and Office Memoranda was negligible.

The evidence reveals the primacy of concern for the country’s macroeconomic stability to move beyond the need for exceptional financing. Nine months prior to exit, although a number of Directors welcomed graduation, there was a sentiment shared amongst some Directors and the staff that exiting would weaken policy implementation. A minority of Directors favored continuing the program for another year, through either extension or a precautionary agreement. Directors also wanted it made clear that graduation is from Fund financial assistance and not IMF support, advice and technical assistance. In another example, in the context of ongoing speculation that the country would try to avoid PPM through early repurchases, Board documents point to substantial concern of Directors that early repurchase could affect the macroeconomic outlook. Even with regard to an ongoing significant debate on the nature of the relationship to the Fund, Directors noted that this was not as important as strengthening market confidence. They stated that likewise the domestic debate should not concentrate on the form of cooperation with the IMF, but on measures to strengthen market confidence.

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of the ninth review the staff had already observed that “There has been an increasingly vocal domestic debate about Indonesia's post-2003 relationship with the IMF. Almost five years of Fund arrangements have given rise to a strong popular sentiment for Indonesia to ‘graduate’ from the Fund's assistance upon expiration of the program. There are, however, a number of officials, as well as academics, business leaders, and analysts who view a new arrangement (precautionary or otherwise) as desirable to provide a framework and discipline for sound policies, particularly during the 2004 election period. While continuing to express their desire to graduate from exceptional financing, the authorities are still weighing their strategic options; the government plans to formulate its ‘exit strategy’ shortly, ahead for the annual session of the Peoples Consultative Assembly (MPR) in August.” See http://www.imf.org/external/pubs/cat/longres.cfm?sk=17055.0.

Political transitions

65. The last IMF program in Indonesia terminated just before a political transition. The concern was not to have the IMF "involved" in the political process. However, some IMF programs deliberately bridge political transitions, and they may play an important role in the exit process. Brazil and Colombia are good examples.

66. In ***Colombia***, Alvaro Uribe assumed the presidency in August 2002 and soon engaged in an ambitious program of military assistance and cooperation with the U.S. (rekindling the then-dormant *Plan* Colombia agreed under the Pastrana-Clinton administrations). In January 2003, the IMF approved a high access two-year precautionary Stand-by Arrangement. Colombia did not face a balance of payments need (excluding military aid); and the new president was a self-declared conservative who, in contrast to Lula in Brazil, had a record of pro-business, pro-stability and pro-IMF statements. He assembled an impressive economic team including Carlos Alberto Carrasquilla as Minister of Finance who as a Professor of Economics and consultant to the global financial industry supported the macroeconomic adjustment of the previous administration—implemented, in part, under an IMF program. If anything, Mr. Carrasquilla was a more hawkish fiscal conservative who had criticized what he classified as fiscal laxness in the previous (December 1999 to December 2002) IMF-supported program. Colombia was on a path to macroeconomic stability; however, a new (precautionary) program with the IMF would broaden political support for *Plan Colombia*. The purpose was to reduce market uncertainties and address long-term fiscal rules and quasi-fiscal issues that became more urgent in face of the planned expansion in military spending. See Box 5 and the Colombia time line in Annex 2 Table A.2.2 for a succinct description of the main features of the exit process.

67. To this extent, the program was successful. During Uribe's first presidency, Colombia achieved deeper fiscal adjustment, including an important reform of the social security system, notwithstanding the increase in military outlays. The judgment at the time was that the IMF program buttressed the credibility of the government's commitments building market support during a period of difficult internal security circumstances.

68. Interestingly, the IMF approved a new program in May 2005 (another precautionary Stand-by Arrangement for SDR 405 million). Again, the motivation was political: the arrangement was to "provide a transparent and sound policy framework during the upcoming political cycle." The issue this time around was the unprecedented re-election of the president, approved after a special popular referendum and a lengthy constitutional debate. President Uribe had a clear popular majority but faced uncertainties in Congress. The program was to "provide the basis for a gradual exit from the use of Fund resources" and envisaged to end after the re-elected administration took office in 2006 as President Uribe did, on March 2006.

Box 5. Colombia: The Exit Process

President Pastrana took office on August 1998 in the midst of the country's worst economic crisis in 30 years. Despite strong opposition from Congress, he proceeded to float the peso and start negotiations with the IMF. On December 1999, the Board approved a three-year EFF. No amount was drawn; the arrangement was not formally precautionary but the authorities treated it as such. Problems in the program's fourth review led, ultimately, to its cancellation. However, Board and internal documents as well as interviews with the authorities suggest that performance was better than anticipated. The government's own team (comprised mainly of technocrats) designed, owned and advanced the program. They introduced fiscal discipline and Colombia regained access to international markets. In 2003, after a period of intense internal conflict and turbulence in the international financial market, the government, now under the stewardship of President Uribe, returned to capital markets issuing a US$1.25 sovereign bond. The economy recovered with steady macroeconomic performance.

The authorities requested a new IMF program, nonetheless. The reasons were political. Aimed at redoubled military assistance under a more vigorous *Plan Colombia,* the U.S. government pressured Colombia to have an IMF arrangement. The new program (a precautionary SBA) was to commit the administration, exert fiscal oversight, and signal this commitment to markets and other international financial institutions.

In late 2004, Congress approved a constitutional amendment allowing for presidential re-election starting in 2006. To face the political shift, and as a precautionary control, the authorities requested a second precautionary arrangement in 2005. The idea was to end the program after the next government took office.

A desk review of Board and related internal documents starting in 2004 and covering two years prior and after Colombia's graduation from the use of Fund resources suggests that transition was part of a planned strategy. References to a gradual and smooth exit from the use of Fund resources started in November 2004 during negotiations for a possible extension of the first precautionary SBA, later transformed into a new SBA. The authorities wanted a last program to bridge the elections and ensure the exit process. There were no discussions of future relations with the IMF other than surveillance. During Board discussions of the third and final review of the final SBA, Executive Directors reaffirmed surveillance as the normal and standard relationship with the IMF. There was an acknowledgment that Colombia and the IMF would enter a less "committing" relationship, after having had a close policy dialogue during the program period.

69. In ***Brazil***, the outgoing Minister of Finance, Pedro Malan, reached an agreement with the IMF in September 2002—near the end of a contentious campaign for the presidency and at the depth of a confidence crisis triggered by the likely victory of the opposition candidate. Historically, the candidate and eventual President, and even more so his party was an adamant critic of the IMF and of the policies implemented by the outgoing administration with the support of the IMF. In its size (a 15-month SBA for SDR 22.8 billion on top of what Brazil had already drawn) and political arrangement (negotiated with all contenders in the campaign) the program was unprecedented, with the explicit intent to help tranquilize markets during the succession period to the new administration. Part of a fortuitous combination of forces that in addition to luck included political commitment, sound pre-existing conditions, and a supportive external environment, the program was a success. For the IMF, it was a daring initiative that made exit possible and, as it happened, sooner than anticipated. Confidence was restored and, with it, stability.

70. Still, for the Brazilian authorities, as much as the Lula administration came to welcome IMF assistance, the program was a reminder of the mistrust they had suffered. For their political party, and its outward political stance, the IMF relationship had been, was and would continue to be a liability. The critical aspect had been the market reaction, and for the market, a disciplined government of the left soon became an asset rather than a liability. The combination of a very benign and unexpected external bonanza, confidence in the macroeconomic outlook, political convenience, and the need for the central bank to demonstrate autonomy, argued persuasively for a quick break. Prudence and diplomatic brinkmanship carried the last IMF program through its second 15-month period from January 2004 to March 2005. Exit, however, had been on the minds of the authorities from the start.

Exit: a summing up

71. Our evaluation reached three firm conclusions; that at the IMF exit is a well defined if not routine process, the expected norm; it should happen as quickly as possible; it was not different for the batch of emerging market economies we studied. Precautionary programs help exit, especially when they bridge difficult political transitions. Because it is the norm, exit does not draw special attention and, since a return to surveillance-only is intended, exit does not call for a post-exit strategy. The experience of each country in our sample is unique, molded by specific historical circumstances and institutions. Nevertheless, broadly, all conform to the pattern.

IV. From Program to Surveillance-only

72. In documents and at the Board, staff and Directors invariably embrace the "return to surveillance-only." Exit is an indication that the system and its instruments are working as envisaged. References to exit are more often than not self-congratulatory. We did not find concern or apprehension with what has been, after all, a rather wholesale exit from middle-income emerging markets from IMF assistance. We did not find it concerning a particular country, which would be understandable as this is an institution with a strong internal culture that admits no faults. We also did not find it in the more general sense of "the exit process." Meanwhile, in corridors, meeting rooms and even at the press, insiders and outsiders discuss vigorous and untiringly the "crisis at the IMF."

A. What Explains the Difference?

73. There is of course no simple answer. Partly it may be a reflection of discipline, an outgrowth of the culture. Approved discussions (i.e., the written documents and minutes of the Board we examined) follow established prototypes and conventions; agendas and outlines are adhered to rather strictly; certain types of staff documents are expected to be uniform in presentation (e.g., Article IV reviews). The linearity of discourse at Board discussions is remarkable, especially if one considers the complexity of the topics and the often-charged political background. Often there are admonishments (dutifully recorded) for wavering

members to stick to the subject and adhere to the agenda. Deliberations about IMF policy issues call for dedicated meetings. It is not appropriate to discuss policy during country specific discussions.

74. In this environment, it may be sensible to leave some topics unexplored. A Board discussion "of the problems of exit" would require a proper arrangement and would begin *after* the Board somehow recognizes that exit is a problem. How that could happen without a Board discussion? Through "informal" Board meetings and briefings by management and staff—of which there are no records. The Board meets to discuss an agenda that garners palpable consensus or at least a quota-weighed majority view. We did not come across any meeting where the Board rejected the staff/management recommendation. The staff must prepare background documents and the practice is to write the summing up of the Board discussions of these documents ahead of time.

75. It may be, therefore, that we could not find a record of the discussion because it "officially" never happened. Either it was not of concern (doubtful) or not channeled internally (yet) in a way that yields an appropriate approach. To this extent, the failure to deal with the "post-exit" relationship may account for part of the distance between the embrace of surveillance as the desired norm and the cry of crisis. We will return to this problem below.

76. There is, however, another way to look at the evidence (in this case, the lack of evidence). While for most of us outsiders, and even for country authorities, the hallmark of an IMF relation is its programs, internally, the paragon relationship is surveillance—which, in principle, is well-defined and uniformly applicable across the membership.

77. From this perspective it is, therefore, quite simple and straightforward to deal with exit. Exit resets the relationship to where it should be. There is, to be sure, a concern with the success of the last program, was it or not capable of bringing the economy back to a sustainable macroeconomic condition? Does the country have the institutional base and technical/analytic wherewithal to manage its macro economy? These are the issues that, as we have seen, the staff, management and the Board concern themselves with diligently during the exit process.[29] The presumption is that, post-exit, the staff will deal with these problems in the same way as before. In the model scenario, it is immaterial whether the IMF carries out its work under a program or under surveillance.

78. Thus, from this perspective, the problem of exit is not "the loss of a program" but the quality of surveillance—and there is no lack of discussion of this issue!

[29] As an exercise, spending a few weeks reading minutes of Board meetings and Article IV reviews yields a familiarity that is not unlike listening to a well-known tune; one learns to expect the rhythm, pattern and repetition.

79. In keeping with the paradigm, however, the Board and staff do not discuss the issue of quality when dealing with a particular country. The understanding is that, in principle, surveillance should not just be a documentation and review of policy. It should include, in addition, the design of policy and a meaningful influence over its implementation. The combined set is, by definition, "the program" and, in principle, it should exist with or without IMF assistance.

80. In reality, it does not. Countries that have never borrowed from the Fund, or that have long since stopped borrowing and became net creditors to the Fund, treat surveillance as an exercise where they learn about and attempt to influence others. The relation is not symmetrical. Since "others" exclude all the major creditors, surveillance is essentially about the low and middle-income countries.

81. The middle-income countries that form the layer of emerging market economies are exiting the IMF. Then, surveillance (in the "program" sense) is (or could became) the province of an ever diminishing set of countries, which is a problem. In a program sense, surveillance could become, almost exclusively, the collateral to donor assistance, the province of low-income smaller countries that engage in donor coordination exercises. It could extend to crisis-prone countries that seek IMF assistance to attempt to maintain open links with global capital markets. Perhaps it could also extend to a broader set of countries that would like to buy "crisis-insurance." However, for this the IMF would have to solve the vexing problems that plagued and ultimately defeated its attempt to make the Contingent Credit Line (CCL) facility operational.[30] Judged by the interminable to-and-fro of current discussions on the proposed successor facility, the Reserve Augmentation Line (RAL), it is unlikely that the insurance program will have many buyers.[31]

82. We did not examine these issues directly or even attempted to review systematically the recent and growing literature on surveillance and the provision of crisis insurance. The IMF just concluded a difficult exercise in re-defining what it understands by surveillance (the "remit"). The exercise took much time not only of its Board and of staff. It engaged senior fora such as the G20 and the IMFC and it sparked debates in think tanks and NGOs across the globe. We do not want to add to this literature. Turning to our sample of countries, we

[30] The Contingent Credit Line (CCL) operated for four years without being used (1999–2003). See http://www.imf.org/external/np/sec/pn/2003/pn03146.htm. It was proposed to be replaced by the Reserve Augmentation Line (RAL) in 2006. The proposal was launched and generated after seminars and workshops with country authorities. See http://www.imf.org/external/np/sec/pn/2006/pn06104.htm, and http://www.imf.org/external/pp/longres.aspx?id=3888. The Board discussed the proposed RAL in March 2007, part of management's strategic review with disagreements on the fundamental design. See http://www.imf.org/external/np/sec/pn/2007/pn0740.htm. As follow-up, during 2007 two further seminars were held one in Chile and in Italy trying to generate consensus.

[31] For example, in Colombia, post-exit the main interest vis-à-vis the IMF was crisis prevention. Nevertheless, the authorities foresaw a problem with the proposed RAL design.

examined, instead, what surveillance is during the two years following exit. We draw inferences mainly from the record of documents.

83. The record is varied. Uniformly countries did better after exit than before, a fact that can attest to the positive contribution of the IMF programs, though causality is problematic. Annex 1 Table A.1.6 shows a quick sketch of the evidence. In all cases the indicators improved, except for deterioration of inflation in Indonesia and the built up of the public deficit and debt in Kazakhstan. Brazil, Kazakhstan, and Lithuania moved to investment grade during the transition and, of course, all countries improved their risk spreads considerably. For Brazil, the country risk spread (measured by the 5 years credit default swap) fell from an average of 952 in 2003 (two years before exit) to 322 in the 2005 (the year of exit) and 91 in 2007 (two years after exit). The comparable numbers for Colombia are 436 (2004 = t-2), 137 (2006 = exit), 209 (2008 = t+2).

84. Turning to the evidence in the documents, post-exit surveillance transpires as weak in Kazakhstan, expectedly given its exit process. There is no indication that the exercise of the Article IV discussions in 2001, 2003, and 2004 included meaningful policy implementation, or even design. The record of the Board discussion indicates that it did not expect it, save for the occasional remark about the possible capacity of IMF to provide advice "on the development of the oil industry."[32] In fact, private consultants such as the Hausmann group at Harvard and the Oxford group have been the main source of advice.[33] Compared to the Fund, they spend more time studying issues eventually validating the quality of Fund's advice. There is much praise for the work done on Lithuania, for the analytical expertise and technical assistance. However, as discussed earlier, by 2005 the IMF had assumed a secondary policy role to the EU and could no longer claim the role of "the influential policy adviser."[34] The Board discussion of the 2004 Article IV Consultation does not include references to IMF-led policy design and implementation.

85. Brazil, Colombia, and Indonesia are more directly involved in the global bond market with active international participation in their domestic and external public and corporate debt. Market surveillance is intense, notably in Brazil and Colombia. Article IV consultations, albeit unpublished in Brazil, are comparable to similar documents produced by market analysts (though, because they are annual, they are less timely for market action and more retrospective, focused on major events and trends in broad aggregates such as "the"

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[32] Documentary evidence reveals that during the period in which Kazakhstan was in the process of developing its oil industry, the Fund was engaged in a learning process to try to integrate the oil sector analysis into the macroeconomic framework.

[33] Relying on private consultants for policy advice seems also to be the case for the government of South Africa.

[34] On the discussions around the 2003 Article IV Consultation, there were calls for a more focused assessment on what was working well in Lithuania and what was not. By the beginning of 2005, staff acknowledged the need to cover long-term issues of particular relevance for Lithuania in the next Article IV Consultations.

balance of payments, fiscal deficit, public debt, etc). As Bessma Momani observed in her study of Canada's Article IV consultations, "… there is great respect for the analysis offered by IMF staff, and for its theoretical and academic models, but there is a real disconnect between the policies prescribed and their policy relevance."[35] Post-exit Board discussions about these three countries dealt with general trends and particular past events, they do not suggest that the IMF was involved in the design of specific macroeconomic policies and/or their implementation.

86. Absent a crisis and an eventual return to the use of IMF resources, the market does not search for the findings of the IMF missions nor pressures the authorities to make the documents public where they are not.[36] Presumably, the findings of surveillance are of greater interest to the country authorities. However, if they are, neither the documents nor our parallel research and prior knowledge about these issues indicates that in Brazil, Colombia, and Indonesia the cycle of policy work and debate waits for the IMF's inputs, or that the views expressed in the Article IV documents have noticeable influence in main policy decisions.

87. In Brazil, where we know the process in more detail and from the inside, our judgment is that, from the perspective of the day-to-day workings of policy formulation and implementation, the pre and post-Article IV discussions are indifferent, even perfunctory. The authorities' reviews concentrate on points of dispute and questions of wording. Relations are cordial and yes, there is a meeting with the Minister of Finance and the President of the central bank. However, the contributions of the IMF, even the more considered views in the Selected Issues Papers, are subsidiary (if not marginal) to the main policy work.[37] The IMF has a voice with privileged access; but is a voice among many, distinguished, perhaps, by the continued animosity of its reception in the popular press and political quarters.[38]

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[35] B. Momani, "Assessing the utility, and measuring learning from, Canada's IMF Article IV Consultations." *Canadian Journal of Political Science*, 39:2, June 2006, p. 266.

[36] Brazil remains one of the very few countries in the IMF membership that does not authorize the publication of IMF documents though, on occasion, the Ministry of Finance will post selected documents on its website.

[37] Interviews with the IMF staff engaged in Brazil produced an overall positive view of the relationship. The staff acknowledged that: "the post program level of engagement with Brazil was clearly lower"; and that, "there was somewhat less access to senior authorities ...." Staff Reports of the Article IV Consultations are similar in scope to comparable efforts by market analysts. Though confidential, they use published data and discuss generally available details of policy. Market reports can be more detailed, critical and knowledgeable about specifics of the policies under discussion; notably, questions of tax and expenditure policies.

[38] This animosity helps explain why the authorities continue to object to the publication of IMF's documents even when they see no objection to the views expressed therein. On the contrary, they find it "embarrassing" to have to explain why the IMF agrees with their views.

V. Implications: In Guise of a Conclusion

A. Summary of Findings

88. The quantitative results document that exit is an important, well managed, predictable, and, on balance, habitual process within the IMF; and a closer reading of Board documents and staff papers show that exit is the expected norm, as it should be according to the Articles of Agreement. Regarding the assessment of the internal IMF process for dealing with exit and transition to surveillance, our conclusion is that it does conform to the norms and expectations created by institutional practice. It satisfies the institutional mandate of guarding the use of Fund resources while assisting members to reestablish external balance and macroeconomic stability after crises. The proximate conclusion, however, is that the wholesale transition to surveillance-only by an important layer of new emerging market economies is a challenge for the IMF. The IMF's legal, organizational and managerial structure rests on surveillance as the paragon, foundational task of the institution. We find, however, that surveillance is not the same before and after exit—and the change affects the relationship with its member countries, the pattern of its interactions. To this extent, our finding that the exit process does not address the post-exit strategy, except as the return to surveillance, presents risks and lost opportunities for the IMF.

B. Implications

89. In the following paragraphs, we address some implications of the last finding. The discussion here is more tentative and escapes the discipline of the empirical evidence, whether quantitative or found for attribution in written documents. It starts, however, from a factual finding: Surveillance is not the same during the program and after exit. Moreover, as is well known, there are problems with surveillance: its presumed (but generally false) attribution of engagement in actual policy design and implementation, its evenhandedness across the membership,[39] its scope, and its relevance for financial markets.

90. The most interesting finding of our review was not about the exit/transition process itself. It is why in the ream of documents we searched through the return to surveillance-only transpires as not only the intended but also the welcomed, straightforward outcome. We expected to find evidence of internal debate and concern for the day-after, not only in terms of the countries' macroeconomic outcomes but also for the relationship and the role of the IMF going forward. We expected to find some discussion of strategy.

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[39] The IEO report on *IMF Exchange Rate Policy Advice* notes that one of the "many and complex reasons for the IMF's failing to fully meet its core responsibilities" is a "strong sense among member countries of a lack of evenhandedness" (p. 3). "The reduced traction with advanced economies is in danger of being extended to large emerging market economies, and beyond" (p. 35).

91. Our inquiry focused on documents that by design and custom follow the same format; the writing is guarded, disciplined and controlled. Even so, the period we trailed spanned the drop in lending and exit from IMF assistance by most countries in this new layer of important emerging market economies. We expected to find some indication at either the Board or the staff documents that something was amiss.

92. We came to recognize, however, that within the institution the idea of looking for potential problems in the transition from program to surveillance is a false start. Surveillance is the paragon relationship. We found, unsurprisingly, that the country-IMF relationship changes post exit. It is less influential and with residual impact on policy design and implementation. The IMF is less relevant post-exit, sometimes bordering on the unimportant. The issue, however, is not exit but the quality of surveillance.

93. The idea that surveillance is the same with and without a program is a self-serving deception. It is not, nor is it of equal significance and impact across the membership. The fact that it is assumed so in the documents that guide the internal debate about specific countries is a problem. The implication is that the relationship merits no particular attention as long as the interactions are regular, cordial and sufficient to produce the standard Article IV assessment. Viewed from the other side, i.e., from the countries' perspective, it may equally appear as acceptable, if the intent is to have a cordial, non-threatening, non-challenging relationship. Considering that in most countries an IMF program is inherently extraneous to the apparatus of policy, the absence of a binding relationship is welcome. A particular player may have use of some finding for a specific purpose but, overall, a policy maker prefers to choose her own counsel and not be obliged to heed the advice of others. The likely upshot is a good but ineffectual exchange that results in a product that is mainly of use by a third party.

94. Of course, this may be a satisfactory outcome. There is ample evidence that, collectively, the global community supports IMF surveillance. Some countries, notably within the G7, spend considerable effort working with their IMF representation to appraise and comment on the periodic Article IV reviews. Integrated into their more extensive monitoring of country relations, the effort can be a relevant input for national foreign policy and aid objectives. These same countries, however, are likely to downplay the importance of their own Article IV review. What they value is the review of others.

95. Nevertheless, because it is an important part of the IMF's web of relations with its membership, the deficiencies in country-specific post-exit relations with this new layer of emerging market economies are of concern. The concern is not new; rather they are part of the same malaise disparaged but tolerated in the IMF's surveillance of the advanced economies. For this reason, it is serious. Surveillance of the advanced economies used to be the exception yet it is about to become the norm.

96. Surely, cast as a supplier/client relationship, it would be marked as wanting. In this light, it is hard to understand the complacency of the Board, management and staff. Even

considering the idiosyncrasies of the way the IMF organizes its work, after looking over years of discussion about exit in one context or another it is difficult to explain why a discussion of post-exit future strategy is so conspicuously absent from the documents. If the IMF were a firm and about to lose a significant part of its clientele, it would develop new products, or reinvent itself to concentrate on other markets. It is not a firm and the analogy is specious. The challenge is not to dump surveillance but make it work in an environment where 98 percent of global GDP is concentrated in countries without an IMF program.

97. Part of the solution is to do multilateral surveillance. The World Economic Outlook is already the most salient IMF publication. It is widely recognized and respected; yet in contrast to bilateral surveillance, it is not unique and does not build directly on the IMF's paragon country relation. On the contrary, it is mainly a research output and it plays in a crowded field with other multilaterals (notably the OECD) and a plethora of private forecasters. Multi-country surveillance exercises are a significant promising innovation. However, they face the same problems of bilateral surveillance.

98. The question is what will induce a country with very low probability of access to the Fund take IMF surveillance seriously, to the point of changing its basic macroeconomic policy in response to the findings of the IMF mission. Likely, only a crisis would induce it, or a coincidence of opinion between the findings and the relevant set of policy alternatives.

99. Should surveillance aim to, and be measured by, its capacity to design, influence and change policy? Our sense is that, probably not. Rather, it could provide to all the same policy review and outlook capacity that the majority (i.e., the main quota holders) want of others.

100. An attentive reviewer of the G20 meetings would observe a dynamic where the recognition of likely future changes in relative global economic power already influences current positions. Indeed, this dynamic may be more prevalent than only in the G20 meetings, purposefully organized with these changes in mind. And if it extends to the issue of surveillance, it could improve the quality of the overall result. The outcome could be a greater awareness of mutual gains, provided the review mission is as willing and capable of discussing the policies and outlook of other countries that are of interest to the authorities as they are willing and capable to discuss the country under review.

101. Of interest is that the change is not so much in what the IMF does as it is in what it pretends to do. Critically, a change in the political view: of those who see in surveillance an exercise where they learn about others (and others follow what the IMF thinks about them); of those who now are still incapable and/or reluctant to incorporate information about the policies of others in their own policy process. Regarding the latter, surveillance would include to a greater and more systematic extent the impact of cross-border policies and spillovers on domestic outcomes; it would continue to provide advice and capacity building on targeted areas of competence.

102. The new exercise would be one where explicitly all learn about others, and where a substantial majority monitors the quality of the entire product. The quality of the whole would be dependent on the quality of the parts, which it is not the case today; and for this, some would argue that a radical rebalancing of the quotas is indispensable. Nevertheless, in the new game, a player recognizes that in diminishing the quality of its surveillance today (i.e., by not giving considerate attention to the IMF review) it may be compromising the surveillance it will have of others tomorrow. Thus, if it prizes the meaningful surveillance of others, it would agree to its own meaningful surveillance.

Annex 1. Tables

Table A.1.1. Countries Exiting IMF Assistance (1985–2006)

Country – Middle Income (World Bank definition)	Last Program					Years without IMF program	Investment Grade
	Date of Arrangement	Date of Expiration	Amount Agreed	Amount Drawn	Amount Outstanding		
Portugal	1983	1985	445	259	0	23.4	1986
Samoa	1984	1985	3	3	0	23.1	
Belize	1984	1986	7	7	0	22.2	
Mauritius	1985	1986	49	49	0	21.9	
China	1986	1987	598	598	0	20.7	1988
Chile	1989	1990	64	64	0	17.7	1994
Trinidad and Tobago	1990	1991	85	85	0	17.3	
Tunisia	1988	1992	207	207	0	16.0	2000
Morocco	1992	1993	92	18	0	15.3	
Barbados	1992	1993	24	15	0	15.2	2000
India	1991	1993	1,656	1,656	0	15.1	
Czech Republic	1993	1994	177	70	0	14.4	1994
Poland	1994	1996	333	283	0	12.4	1996
Jamaica	1992	1996	109	78	0	12.4	
Slovakia	1994	1996	116	32	0	12.4	1996
Belarus	1995	1996	196	50	0	11.9	
Costa Rica (+)	1995	1997	52	0	0	11.4	
Uzbekistan	1995	1997	125	65	0	11.4	
Venezuela	1996	1997	976	350	0	11.1	
Hungary (+)	1996	1998	264	0	0	10.5	1998
Algeria	1995	1998	1,169	1,169	0	10.2	
Egypt (+)	1996	1998	271	0	0	9.8	
El Salvador (+)	1998	2000	38	0	0	8.4	
Thailand	1997	2000	2,900	2,500	0	8.1	2003
Zimbabwe	1999	2000	141	25	0	7.8	
Mexico	1999	2000	3,103	1,940	0	7.7	2005
Korea	1997	2000	15,500	14,413	0	7.7	2005
Russia	1999	2000	3,300	471	0	7.6	2005
Philippines	1998	2000	1,021	783	0	7.6	
Estonia (+)	2000	2001	29	0	0	6.9	2002
Papua New Guinea	2000	2001	86	86	0	6.8	
Kazakhstan (+) (*)	1999	2002	329	0	0	6.4	2006
Panama (+)	2000	2002	64	0	0	6.3	
Latvia (+)	2001	2002	33	0	0	5.6	2002
Lithuania (+) (*)	2001	2003	87	0	0	5.3	2006
Indonesia	2000	2003	3,638	3,638	0	4.6	
Bosnia and Herzegovina	2002	2004	68	68	2	4.4	
Guatemala	2003	2004	84	0	0	4.4	
Ecuador	2003	2004	151	60	0	4.3	
Jordan	2002	2004	85	11	0	4.1	
Ukraine (+)	2004	2005	412	0	0	3.3	
Brazil (*)	2002	2005	27	17	0	3.3	2008
Argentina	2003	2006	8,981	4,171	0	2.6	
Serbia	2002	2006	650	650	0	2.4	
Bolivia	2003	2006	146	112	0	2.3	
Romania (+)	2004	2006	250	0	0	2.1	2005
Colombia (+) (*)	2005	2006	405	0	0	1.7	
Croatia (+)	2004	2006	99	0	0	1.7	1997
Uruguay	2005	2006	766	264	0	1.6	

+ Precautionary program
* Case study

Table A.1.2. Minutes of Board Meetings—Discussion of Exit

Country	Document Type	Country Sequence No.	Sequence No.	EDs present	AEDs present	Temp EDs present	Chair	Addressed grad/trans/ relations	Contingency arrangements	Total
Total	B	N	40	11	11	19	4	20	2	20
	B	AVG	960	44%	42%		10%	50%	5%	50%
Brazil	B	N	12	12	11	12	2	6	0	6
	B	AVG	288	52%	45%		17%	50%	0%	50%
Colombia	B	N	6	3	9	13	0	2	2	2
	B	AVG	144	6%	19%		0%	33%	33%	33%
Indonesia	B	N	11	13	11	12	0	8	0	8
	B	AVG	264	53%	48%		0%	73%	0%	73%
Kazakhstan	B	N	5	8	8	19	2	1	0	1
	B	AVG	120	33%	36%		40%	20%	0%	20%
Lithuania	B	N	6	15	13	27	0	3	0	3
	B	AVG	144	60%	53%		0%	50%	0%	50%

Table A.1.3. Staff Reports and Memoranda—Discussion of Exit

Country	Document Type	Country Sequence No.	Sequence No.	Explicit reference to grad./ trans	Future relations/ modalities	Total
Total	S	N	141	27	29	54
	S	%		19%	28%	38%
Brazil	S	N	33	3	13	13
	S	%		9%	39%	39%
Colombia	S	N	19	7	0	7
	S	%		37%	0%	37%
Indonesia	S	N	16	7	8	9
	S	%		44%	50%	56%
Kazakhstan	S	N	38	3	14	15
	S	%		8%	37%	39%
Lithuania	S	N	35	7	4	10
	S	%		20%	11%	29%

Table A.1.4a. Bivariate Analysis by Type of Exit Variable

Document = Minutes of Board Discussion				
	Exit1	Exit2	Exit3	Total
Total	47	41	74	181
Percent	26	23	41	100
Yes	20	2	20	40
Percent	50	5	50	22
No	27	39	54	141
Percent	19	28	38	78
Pearson X2	15.43	9.13	1.77	
Prob (In percent)	0.01***	0.25***	18.39	

Table A.1.4b. Bivariate Analysis by Type of Exit Variable (continued)

Program = Precautionary					Program = Political Transition				
	Exit1	Exit2	Exit3	Total		Exit1	Exit2	Exit3	Total
Total	47	41	74	181	Total	47	41	74	181
Percent	26	23	41	100	Percent	26	23	41	100
Yes	17	8	23	74	Yes	21	14	28	50
Percent	9	4	13	41	Percent	12	8	15	28
No	30	33	51	107	No	26	27	46	131
Percent	17	18	28	59	Percent	14	15	25	72
Pearson X2	0.58	10.02	4.98		Pearson X2	9.24	1.13	6.53	
Prob	44.49	0.16***	2.57**		Prob	0.24***	0.2883	1.06***	
Program = Last Program					**Program = Last Review of Last Program**				
	Exit1	Exit2	Exit3	Total		Exit1	Exit2	Exit3	Total
Total	47	41	74	181	Total	47	41	74	181
Percent	26	23	41	100	Percent	26	23	41	100
Yes	30	25	46	104	Yes	6	3	46	104
No	17	16	28	77	No	41	38	28	77
Percent	9	9	15	43	Percent	23	21	15	43
Pearson X2	1.05	0.27	1.13		Pearson X2	10.47	1.05	1.13	
Prob	30.45	60.45	28.71		Prob	0.12***	30.48	28.71	

Table A.1.5. Probit Results

Method: ML – Binary Probit (Quadratic hill climbing)
Covarian matrix computed using second derivatives

	Exit 1				Exit 2		
	Coefficient	Std. Error	z-Statistic	Prob. (In percent)	Coefficient	Std. Error	z-Statistic
C	-1.302	0.309	-4.219	0***	-0.129	0.245	-0.527
Document	0.703	0.253	2.775	0.55***	-1.289	0.406	-3.174
Last review	1.138	0.557	2.041	4.12**	0.933	0.553	1.687
Last program	-0.044	0.358	-0.123	90.2	0.612	0.477	1.284
Precautionary	-0.278	0.435	-0.639	52.3	-1.168	0.557	-2.096
Political transition	0.321	0.373	0.859	39.0	0.044	0.406	0.108
Brazil	0.012	0.441	0.027	97.9	-0.806	0.459	-1.755
Colombia	0.828	0.501	1.653	9.84*	-0.232	0.604	-0.384
Indonesia	0.945	0.442	2.138	3.25**	-0.526	0.442	-1.190
Lithuania	0.648	0.368	1.760	7.84*	-0.721	0.367	-1.962
McFadden R^2	0.178				0.179		
Akaike info criterion	1.052				0.989		
Log likelihood	-85.222				-79.498		
LR statistic	36.877				34.687		
Prob (LR Statistic)	0.0%***				0.0%***		
S.E. of regression	0.403				0.394		
Mean dependent var	0.260				0.227		
S.D. dependant var	0.440				0.420		
Obs with Dep=0	134				140		
Obs with Dep=1	47				41		
Total Obs	181				181		

*** significant at the 1 percent level or less.
** significant at the 5 percent level or less.
* significant at the 10 percent level or less.

Table A.1.6. Main Macroeconomic Indicators—Pre- and Post–Exit

	t-2	t	t+2
Brazil	**2003**	**2005**	**2007**
Country rating (Moody's)	B2	Ba3	Ba1
CPI inflation (Percent chg yoy)	9.3	5.7	3.7
GDP growth rate (Percent chg yoy)	1.1	3.2	5.4
CAB (Percent of GDP)	0.7	1.6	0.1
Budget deficit (Percent of GDP)	4.6	3	2.3
Public debt stock (Percent of GDP)	76.5	64.2	68.8
External debt stock (Percent of GDP)	38.6	19.1	15
REER Appreciation (Percent change)	-5.8	22.6	9.3
Terms of Trade (Percent change)	-1.4	0.9	3.5
Colombia	**2004**	**2006**	**2008**
Country rating (Moody's)	Ba2	Ba2	Ba2/Ba1
CPI inflation (Percent chg yoy)	5.5	4.5	4.3
GDP Growth (Percent chg yoy)	4.9	6.8	4.6
CAB (Percent of GDP)	-0.9	-2.1	-4.9
Budget deficit (Percent of GDP)	1.3	0.8	1.4
Public debt stock (Percent of GDP)	49.2	43	37.8
External debt stock (Percent of GDP)	36.6	27.9	25.9
REER Appreciation (Percent change)	13.3	-1.9	
Terms of trade (Percent change)	8.1	3	7.4
Indonesia	**2001**	**2003**	**2005**
Country rating (Moody's)	B3	B3/B2	B2
CPI inflation (Percent chg yoy)	12.5	5.2	17.1
GDP growth rate (Percent chg yoy)	3.1	4.8	5.6
CAB (Percent of GDP)	4.5	3.4	0.3
Budget deficit (Percent of GDP)	2.9	1.9	0.3
Public debt stock (Percent of GDP)	94	59.3	46.5
External debt stock (Percent of GDP)	95.8	56.8	47.6
REER Appreciation (Percent change)	3.5	27	3
Terms of Trade (Percent change)	-1.6	-0.1	1.1
Lithuania	**2001**	**2003**	**2005**
Country rating (Moody's)	Ba1	Baa1/Baa1/A3	A3
CPI inflation (Percent chg yoy)	2	-1.3	3
GDP growth rate (Percent chg yoy)	6.4	9.7	7
CAB (Percent of GDP)	-4.7	-7	-9.5
Budget deficit (Percent of GDP)	0.3	0.1	0.8
Public debt stock (Percent of GDP)	19.3	15.2	12.2
External debt stock (Percent of GDP)	43.6	45.4	43.2
REER Appreciation (Percent change)	-0.3	2	3.6
Terms of Trade (Percent change)			
Kazakhstan	**2000**	**2002**	**2004**
Country rating (Moody's)	B1	Ba2/Baa3 (inv.gr.)	Baa3
CPI inflation (Percent chg yoy)	9.8	6.6	6.5
GDP growth rate (Percent chg yoy)	9.8	9.8	9.6
CAB (Percent of GDP)	4.2	-3.5	0.8
Budget deficit (Percent of GDP)	-0.8	1.4	2.5
Public debt stock (Percent of GDP)			7.8
External debt stock (Percent of GDP)	74.2	74.1	75.8
REER Appreciation (Percent change)	-0.6	-4.4	5.8
Terms of Trade (Percent change)	32.1	-0.1	12.1

Annex 2. Case Study Country Timelines

Table A.2.1. Brazil

Date	1997	1998	1999	2000	2001	2002
IMF Programs		**Dec:** 33-month Stand-By Credit approved (SBA 1) (SDR 13bn), of which 1-year SRF approved (SDR 9.1bn)	**Dec:** SRF 1 expires (SDR 2.6bn undrawn); IMF program redesign commanded by A. Fraga		**Sep:** SBA 1 expires; **Sep:** 12-month Stand-By Credit (SBA 2) (SDR 12.1bn) and SRF 2 approved (SDR 9.95bn)	**Sep:** SBA 2 and SRF 2 expire; **Sep:** 15-month Stand-By Credit (SBA 3) approved (SDR 22.8 bn), of which 1-year SRF 3 approved (SDR 7.6bn)
		SBA1				SBA2
		SRF1			SRF2	
IMF credit outstanding (SDR)	23.3m	3.4bn	6.4bn	1.4bn	6.6bn	15.3bn
IMF milestones		**Dec:** Program (SBA 1) begins	**Nov:** Brazil accepts Article VIII obligations	**Apr:** Last SRF repurchase; authorities to treat program as precautionary henceforth		
Events	Real Plan 3rd anniversary; **Oct:** Asia crisis and contagion; **Dec:** Fiscal package approved (not implemented)	**Sep:** Russia crisis & contagion; **Oct:** Presidential elections (Cardoso); **Nov:** Financial crisis + LTCM	**Jan:** Currency crisis; floating exchange rate adopted on January 18 (IMF not consulted); **Jun:** Inflation Targeting adopted (IMF initially objects; Bank of England support)	**May:** Brazilian Fiscal Responsibility Law (Supplementary Law 101) enacted	**Mar-Oct:** Energy crisis and policy measures; **Apr:** Argentina crisis 1 and contagion; **Sep:** U.S. terrorist attacks (Sep 11) and financial contagion	**Feb:** Argentina crisis 2 and contagion; **Apr:** New payments system and rules—financial dislocations; **Sep-Nov:** Political confidence crisis; **Oct:** Presidential elections (Lula)
Periods			Major fiscal adjustment efforts. New macro tripod: Floating exchange rate + Fiscal anchor + Inflation targeting	Economic recovery w/declining inflation, growth of investment, improvement of external accounts, and strengthening of fiscal performance	Worsening of international environment and significant deterioration in financial market variables give rise to renewed concerns on debt sustainability	Fiscal flows and external current account adjust. Government works to dispel concerns about stance of macro policies post-presidential transition; candidates agree on "bridge" IMF program; **Oct:** Serious financial crisis w/major overshooting of the exchange rate
Authorities						
Minister of Finance (period)	Pedro Sampaio Malan					
Governor of Central Bank (period)	Gustavo Franco		Francisco Lopes (Jan-Mar)	Arminio Fraga (Mar 1999–Dec 2002)		

Table A.2.1. Brazil (concluded)

		9/6/2002	3/31/2005	SBA	
	t-2	**t-1**	**t (expiration)**	**t+1**	**t+2**
Date	**2003**	**2004**	**2005**	**2006**	**2007**
IMF Programs	**Sep:** SRF 3 expires **Dec**.: Extended SBA approved (15-month)/ augmented (SDR 4.575m; total SDR 27.3m)		**Mar:** SBA 3 expires		
	SBA 3				
	SRF 3				
IMF credit outstanding (SDR)	19.1bn	16.1bn	0	0	0
IMF milestones	**Oct:** LEG questions whether SRF can be used without actual rather than potential BOP problems		**Mar:** graduation; **Jun+Dec:** prepayment of credit outstanding		
Events	Strong world recovery and start of commodity cycle: sharp improvement in t-of-t		"Mensalão" political crisis. José Dirceo, Chief of Staff resigns	**Oct:** Presidential elections (Lula)	
Periods	New administration w/conservative appointments (MoF, Industry, Agriculture and Central Bank) and prudent macro. No change in regime. Fiscal contraction (first in 6 years) and tight monetary policy helps restore confidence. Disinflation w/currency appreciation and slowdown in growth	Macroeconomic performance remains strong but with return of pattern of real increase in public expenditure. Large tax intake allows fiscal primary surplus at highest level since 1990. Central Bank re-tightens policy on inflation threat	Positive terms of trade shock, ample global liquidity with strong global growth and large FDI inflows stimulates exports & pushes BoP to surplus. Continued real appreciation w/low inflation induces major investment boom w/rapid growth of domestic income followed by strong expansion in consumption (private and public). GDP growth accelerates to above 5 percent with significant increase in credit & structural shift in labor market w/accelerated expansion in formal employment. Begin period of rapid buildup in reserves (to 2007) and accommodative monetary policy		
Authorities					
Minister of Finance (period)	Antonio Palocci			Palocci/Mantega	
Governor of Central Bank (period)	Henrique de Campos Meirelles				

Table A.2.2. Colombia

Date	1998	1999	2000	2001	2002
IMF programs			EFF (Dec 1999–Dec 2002) not formally precautionary		
IMF milestones			While not explicitly a prior action, Colombia would not have been able to have a program with the Fund if it had not floated the peso. Trips of the MD to talk with Congress to pursuit reforms. Congress did not support President Pastrana and the Fund had no credibility within Congress. The government persuaded Congress to approve relationship with the IMF to appease private markets.		
IMF credit outstanding (SDR)	0	0	0	0	0
Events	**Aug:** Pastrana takes office. **1998–99**: Plan Colombia with support from the U. S.				Intensification of internal conflict (insurgency) and turbulence in international financial markets. **Feb:** Breakdown of negotiations with guerillas followed by escalating violence. **May:** Uribe elected president. **Aug:** Uribe took office. **Dec 2002–Apr 2003:** government returned to international capital markets by issuing US$ 1.25 bn in bonds.
Periods	Crisis (recession)		Adjustment: Program was better than anticipated: ownership (reforms pushed by economic team and academics), new inflation targeting regime, fiscal discipline, Colombia regained access to the international financial markets.		
Authorities					
Minister of Finance and Public Credit (period)	J.C. Restrepo	J.C. Restrepo	J.M. Santos	J.M. Santos	R. Junguito
Governor of Central Bank (period)	M. Urrutia	M. Urrutia	M. Urrutia	M. Urrutia	M. Urrutia

Table A.2.2. Colombia (concluded)

Date	2003	05/02/2005 t-2 2004	11/02/2006 t-1 2005	SBA t (expiration) 2006	t+1 2007	t+2 2008
IMF programs	SBA 1 (January 2003–May 2005) precautionary			18-month SBA 2 (May 2005–November 2006) precautionary		
IMF milestones	The Board did not want to have another EFF with Colombia partially because they were no longer in the middle of a crisis (no need of access to substantial funds)	**Nov:** reference to reaching understandings on a successor arrangement that would provide the basis for a "gradual exit from the use of Fund resources" during the first request of extension of SBA 1 (ex-ante).	The dynamics for the negotiations of SBA 2 were different than the ones for previous programs. The issue was how to exit from Fund support since many in Colombia did not see the need of a program.	**Oct:** 4 EDs implied that surveillance was the normal/standard relationship after the end of the program (Board meeting). **Nov:** The arrangement ended after the next government took office.	Recognition that after the exit from the use of Fund resources, Colombia and the Fund would enter a less committing relationship after having a close economic policy dialogue during the SBAs.	
IMF credit outstanding (SDR)	0	0	0	0	0	0
Events		**Nov:** Congress approved a constitutional amendment allowing for re-election starting in 2006.		**Mar:** Uribe's coalition of six parties won a majority in both houses of Congress. **May:** Uribe won re-election with 62 percent of the votes.		
Periods	Post-adjustment recovery: At the beginning overhang of the EFF (good program, consolidation). Progress in macroeconomic performance. Political reasons for SBA 1 and SBA 2: Pressure from the U.S. (SBA 1 as a condition to get extended credit from the U.S.), signal to markets and IFIs, and political shift →precautionary oversight.					
Authorities						
Minister of Finance and Public Credit (period)	R. Junguito	A. Carrasquilla	A. Carrasquilla	A. Carrasquilla	A. Carrasquilla/ O. Zuluaga	O. Zuluaga
Governor of Central Bank (period)	M. Urrutia	M. Urrutia	J.D. Uribe	J.D. Uribe	J.D. Uribe	J.D. Uribe

Table A.2.3. Indonesia

Date	1997	1998	1999	2000
IMF programs	**Nov:** 3-year Stand-By Credit approved (SDR 7.3 bn) (490 percent quota)	**Aug:** Credit tranche approved SDR 734 mn; EFF 1 approved (SDR 4.7 bn)	**Mar:** 4th Review; disbursement (SDR 460 mn); augmentation SDR 714 mn	
	SBA	EFF1: $4.9 bn		
				EFF2: $5 bn
		EFF: $11.1 bn		
IMF credit outstanding (SDR)	2.2 bn	6.4 bn	7.47 bn	8.32 bn
IMF milestones	Indonesia program begins			
Events	**Jul:** Asian Crisis begins; Rupiah floated	**May:** Riots/ Soeharto resigns	National elections	
Periods	IMF replaces Stand-By Credit with EFF to include a wide-ranging program of structural reforms. Over 18-month period, Bank redirects strategy. Bank/IMF corporate bank/debt restructuring, domestic/international trade reform and increasing transparency in government operations			
			National poverty rate spikes at nearly 30 percent	
Authorities				
Minister of Finance (period)			Sudibyo (Nov 1999)	Subianto; Priyadi (Aug 2000)
Governor of Central Bank (period)		Sabirin (Feb 1998–2000)		

Table A.2.3. Indonesia (concluded)

		2/04/2000	**12/31/2003**	**EFF**		
	t-2	**t-1**	**t (expiration)**	**t+1**	**t+2**	
Date	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
IMF programs		**Jan:** 4th Review; disbursement ($341m); approved 1-year extension	**Mar:** 8th Review; disbursement ($469m); **Jun:** 9th Review; disbursement ($456m); **Oct:** 10th Review; disbursement ($493m) **Dec:** 11th/Final Review; disbursement ($493m)	**Feb:** PPM 1 **Dec:** PPM 2	**May:** PPM 3 **Dec:** PPM 4	**May:** PPM 5
	EFF 2					
	EFF					
IMF credit outstanding	7.25 bn	6.51 bn	6.91 bn	6.23 bn	5.46 bn	0
IMF milestones			**Jul:** Gov. decides to enter into PPM following grad. **Dec:** graduation	**Feb:** PPM discussions begin		**Jun:** Advance repayment of 1/2 obligations (SDR 2.5bn) **Oct:** Advance repayment of remaining obligations (SDR 2.2bn)
				PPM		
Events	**Jan:**: "Big Bang" fiscal decentralization; **Mar:** IFC suspends new investments; **Jul:** President Wahid impeached; smooth transition to Megawati	**Feb:** IFC resumes new investments; PFM White Paper released	Defense White Paper released; Economic Policy Package White Paper released	Elections. **Apr:** National legislature; reg. rep. council; **Jul:** Pres.; **Sep:** Pres. run-off; **Dec:** Aceh Tsunami	**Jan:** MD's ASEAN Leaders Meeting, Jakarta; **Mar:** Nias Earthquake **Oct:** Bali terrorist bombing	**May:** Yogyakarta/ Central Java Earthquake; **Jul:** W. Java Tsunami
Periods	In 2001, investment growth falls sharply due to political uncertainty, currency volatility, negative capital flows, lagging policy reforms. In 2002, greater political stability/steadier progress in government's macro-economic program supported by the IMF; Megawati establishes 5 independent oversight/prosecutorial institutions		Domestic "credibility gap" challenges; IMF continues to provide TA in areas of tax and customs administration, public expenditure management, banking system supervision, and legal reform			
		National poverty rate drops to 13 percent			Inflation targeting program begins	
Authorities						
Minister of Finance (period)	Boediono (Aug 2001–04)			Indrawati (Sep 2004-on)		
Governor of Central Bank (period)	Nasution		Burhanuddin Abdullah			

Table A.2.4. Kazakhstan

	1991	1992	1993	1994	1995	1996	1997
IMF Programs			Systemic Transformation Facility (starting Jul 1993) (SDR 123.75 mn)	SBA 1 (Jan 1994–May 1995) (SDR 74.25 mn)	SBA 2 (Jun 1995–Jun 1996) (SDR 185.60 mn)	EFF 1 (Jul 1996–99) (SDR 309.40 mn)	
IMF milestones	Start of IMF relationship; interactions w/senior level authorities (regular meetings with the president)	IMF membership: Jul 15, 1992– Aug 1992: first resident representative	First Article IV consultation				
IMF credit outstanding (SDR)	0	0	123.75 mn	136.13 mn	291 mn	383.6 mn	379 mn
Events	**Dec:** Breakup of the USSR		**Nov:** Collapse of Ruble zone. Near hyper-inflation. K-currency (Tenge) introduced	Massive contraction of domestic activity; collapse in the demand for traditional heavy industry and buildup of inter-enterprise arrears			
Periods	Period of intense relations with the IMF to support transition efforts: one STF and 2 SBAs (structural reforms; build up institutions, fiscal and monetary policies), intense availability of IMF advice and in higher demand, substantial TA. At the beginning of the EFF 1, future developments were uncertain (need of further structural reforms and institutional support) and uncertain BoP needs.						
Authorities							
Minister of Finance	Abdilkadirov	Abdilkadirov	Izteleuov/Derbisov	Derbisov/Pavlov	Pavlov	Pavlov	Pavlov
Governor of Central Bank	Bainazarov	Bainazarov	Bainazarov	Sembayev	Sembayev	Jandosov	Jandosov

Table A.2.4. Kazakhstan (concluded)

	1998	1999	2000	2001	2002	2003	2004
IMF programs	**EFF 1 (Jul 1996–99) (SDR 309.4 mn)**		**EFF 2 (Dec 1999–Mar 2002) precautionary (SDR 329 mn)**				
IMF milestones	In practice, surveillance relationship with the Fund after EFF became inoperative going forward		Dispute with Res.Rep. and complaint to management. Res.Rep. stayed in the position. EFF 2 became inoperative. No agreement on the new macroeconomic framework starting from 1st review of EFF 2. **May:** Repaid all outstanding obligations	**Feb:** Interest in reactivating EFF2 or moving to staff-monitored program. **Nov:** Inquiry about IMF letter to IBRD regarding macro situation. Authorities still keep options open with IFIs. **Oct:** IMF negotiating position. No reactivation of EFF. Cancellation with new precautionary SBA. Precautionary arrangement would require potential BoP need	**Feb:** EFF 2 cancelled. **Apr:** Pavlov/ Marchenko interested in precautionary SBA with structural reforms & control public spending. **Spring/Summer:** Discussions; later discontinued due to lack of BoP need and commitment on reforms. **Aug:** Discussions on program lending with IBRD cancelled	**Aug:** Position of Res. Rep. was terminated	**Jun:** IMF staff position—no demand for assistance in foreseeable future. K-authorities: reject use of IMF program as gateway for IBRD lending. **Jul:** IMF-PDR acknowledges that K "successfully graduated" from the use of Fund resources
IMF credit outstanding (SDR)	328.3 mn	360.28 mn	0	0	0	0	0
Events	**Aug:** Russian crisis. No major impact on Kazakhstan's performance	**Apr:** Floating of the tenge		**May:** National Fund for the Republic of Kazakhstan becomes operational	**Mar:** Market Economy status (U.S. Dept. of Commerce). **Sep:** Investment grade - Moody's (Baa3)		
Periods	Oil industry development. No longer clear BoP need. Uncertainty about role of the IMF: IMF staff learning how to integrate oil sector analysis into macro framework; tension in the relations with authorities		Mature oil industry (rapid economic growth). Complacency and tendency to delay structural reforms. Govt work with private consultants replaces IMF advice				
Authorities							
Minister of Finance	Mynbaev	Oraz Jandosov/Esenbayev	Esenbayev	Esenbayev	Esenbayev/Pavlov	Dosayev	Dosayev/Dunaev
Governor of Central Bank	Jandosov/Damitov	Damitov/Marchenko	Marchenko	Marchenko	Marchenko	Marchenko	Saidenov

Table A.2.5. Lithuania

Dates	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
IMF programs	**October**: Stand-By Credit approved (SDR 56.9m)	**October**: Stand-By Credit/STF approved (SDR 28.9m)	**October**: 3-yr EFF approved (SDR 134m)			**October**: EFF expires	
	SBA1	**SBA2/STF**	**EFF**				
IMF credit outstanding (SDRs)	17.2 mn	88.9 mn	134.5 mn	176 mn	190.1 mn	200.4 mn	179.8 mn
IMF milestones	**Jul:** Lithuania joins IMF						
Events			**Apr:** Litas pegged to the U.S dollar				
Periods	With the support of IMF under two stand-by credits and STF (portions not drawn down), authorities completed the initial stage of financial stabilization. Structural reforms included taxation, tax admin, public expenditure management, trade policy, legal and institutional frameworks for commercial activity and economic statistics. At the start of EFF, future developments and BoP needs uncertain.			Economic recovery begins and gathers further strength; fiscal stance tightens considerably in 1997. Directors observe that the key challenges faced by the authorities is sustaining favorable economic performance.			
Authorities							
Minister of Finance (period)	Kuneviciene/Misevicius	Vilkelis		Sarkinas	Krizinauskas/Matiliauskas	Semeta	
Governor of Central Bank (period)					Sarkinas		

Table A.2.5. Lithuania (concluded)

				8/30/2001	**3/29/2003**	**SBA**	
			t-2	**t-1**	**t (expiration)**	**t+1**	**t+2**
Dates	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
IMF programs		**Mar:** Precautionary SBA 1 approved (SDR 61.8m)	**Jun:** Precautionary SBA 1 expires; **Aug:** Precautionary SBA 2 approved (SDR 86.5m)		**Mar:** Precautionary SBA 2 expires; graduation		
		Precautionary-only SBAs					
IMF credit outstanding (SDRs)	167.8 mn	147 mn	120.3 mn	89.2 mn	30.2 mn	16.8 mn	0
IMF milestones		**Sep:** 1st Review		**Jun:** 2nd Review **Jul:** Fiscal ROSC Mission	**Feb:** 3rd Review		
Events		**Oct:** Elections. Parliamentary	**May:** Joined WTO. More than half of exports to EU countries	**Feb:** Litas switches to Euro peg		**May:** EU Accession **Jun:** Entered ERM-II **Jun:** Elections. Presidential **Oct:** Elections. Seimas	
Periods		1994 Currency Board Arrangement continues to anchor macroeconomic policies; structural reforms slow and need reinvigoration.					
		After virulent financial crisis in 1998–99, period marked by robust non-inflationary growth; current account balance begins to widen sharply in 2003					
Authorities							
Minister of Finance (period)		Dudenas	Lionginas/Grybauskaite	Grybauskaite/Butkevicius (May 04)			Balcytis (May 05)
Governor of Central Bank (period)		Sarkinas					

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