



INTERNATIONAL MONETARY FUND FACTSHEET

IMF Conditionality

When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid in the first place. These loan conditions also serve as a guarantee that the country will be able to repay the Fund. In recent years, the IMF has streamlined conditionality in order to promote national ownership of strong and effective policies.

In recent years, the IMF has become more flexible in the way it engages with countries on issues related to structural reform of the economy. As part of a wide-ranging reform of its lending practices announced in March 2009, the IMF has also introduced a new lending facility (the Flexible Credit Line) that, for the first time in the Fund's history, does not include program conditions once a country has met rigorous pre-qualification criteria.

Designing effective programs

Conditionality in its broad sense embraces both the design of IMF-supported programs—that's to say, the underlying macroeconomic and structural policies—and the specific tools used to monitor progress toward the goals outlined by the country in cooperation with the IMF. Conditionality is aimed at helping member countries solve balance of payments problems without resorting to measures that may put national or international prosperity in jeopardy. At the same time, the measures are meant to safeguard IMF resources by ensuring that the country's economy will be healthy enough to repay the loan.

All conditionality under an IMF-supported program must be “macro-critical”, that is to say, either critical to the achievement of program goals or for monitoring implementation, or necessary for the implementation of specific provisions under the IMF's Articles of Agreement.

How it works

Conditionality under the IMF's Flexible Credit Line takes the form of pre-defined rigorous qualification criteria (known as ex-ante conditionality). For all other facilities, conditionality involves the monitoring of program implementation (known as ex-post conditionality).

In deciding on program-related ex-post conditionality, the IMF is guided by the principle that the member country has primary responsibility for selecting, designing, and implementing the policies that will make the program successful. The member country's policy program is described in a [letter of intent](#) (which often has a [memorandum of economic and financial policies](#) attached to it) that accompanies the country's request for IMF financing. The objectives of a program and the types of policies involved depend on country-specific circumstances. But the overarching goal is always to restore or maintain balance of payments viability and macroeconomic stability, while setting the stage for sustained, high-quality growth.

How compliance with program conditions is assessed

Most IMF financing features phased disbursements and the linking of additional financing to demonstrable policy actions. This aims to ensure progress in program implementation and to reduce risks to the IMF. Program monitoring in these cases relies on different tools:

- **Prior actions** are measures that a country agrees to take *before* the IMF's Executive Board approves financing or completes a review. Such measures ensure that the program has the necessary foundation to succeed, or is put back on track following deviations from agreed policies. Prior actions could include, for example, elimination of price controls or formal approval of a government budget consistent with the program's fiscal framework.
- **Quantitative performance criteria (QPCs)** are specific conditions that have to be met for the agreed amount of credit to be disbursed. QPCs typically refer to macroeconomic policy variables such as monetary and credit aggregates, international reserves, fiscal balances, or external borrowing. For example, a program might include a minimum level of net international reserves, a maximum level of central bank net domestic assets, or a maximum level of government borrowing. QPCs may be supplemented with **indicative targets**. These are often set for the later months of a program, and are then turned into QPCs, with appropriate modifications, as economic trends firm up.
- **Structural benchmarks** are measures that are critical to achieve program goals. These vary across programs but could, for example, include measures to improve financial sector operations, build up social safety nets, or strengthen public financial management.
- **Program reviews** provide a framework for the Executive Board to assess periodically whether the IMF-supported program is broadly on track and whether modifications are necessary for achieving the program's objectives. Reviews are used to assess the economic policies underlying a program from a backward-looking perspective (assessing whether conditions have been met according to the agreed timetable) and a forward-looking perspective (assessing whether the program needs to be modified in light of new developments).

Recent changes in conditionality

[IMF lending](#) has always involved policy conditions. Up until the early 1980s, IMF conditionality largely focused on macroeconomic policies. Subsequently, the complexity and scope of the structural conditions attached to IMF loans increased significantly. This broadening and deepening of conditionality reflected in part the IMF's growing involvement in low-income and transition countries, where structural problems hampering broader economic stability and growth were particularly severe.

In 2000, the IMF concluded an extensive review of conditionality—a process that also involved consultations with stakeholders outside the IMF—aimed at enhancing the effectiveness of IMF-supported programs. This review recognized that successful economic policy programs must be founded on strong country ownership. Accordingly, the IMF has been striving to focus more sharply and be more clear about the conditions attached to its financing, and to be flexible and responsive in discussing alternative policies with countries requesting financial assistance.

Revised [guidelines on conditionality](#), which take these objectives into account, were adopted by the IMF's Board in September 2002. The IMF's Executive Board reviewed the application of the new guidelines in March 2005, concluding that substantial progress had been made and encouraging the staff to further these efforts.

In 2007, the IMF's Independent Evaluation Office (IEO) completed an assessment of structural conditionality in IMF-supported programs. The report provided impetus to the ongoing effort to make conditionality even more focused and relevant. In light of the IEO's finding that the number of structural conditions had not declined and that some conditions were not critical for the achievement of program goals, the IMF's Executive Board called for strengthened efforts to achieve parsimony by focusing on measures that are critical to the success of programs and providing rigorous justification for conditions.

The management implementation plan in response to the Board-endorsed IEO recommendations was discussed by the Executive Board in May 2008. The plan calls for sharpening the application of the 2002 Guidelines on Conditionality by requiring better justification of criticality, establishing explicit links between goals, strategies and conditionality, and enhancing program documents. The plan also entails the upgrading of MONA—a database with information on the conditionality in IMF-supported programs—to improve program monitoring and making it available to the public.

In March 2009, the IMF modernized its conditionality framework in the context of a comprehensive reform to strengthen its capacity to prevent and resolve crises. The new framework ensures that structural conditions linked to disbursements of IMF financing are sufficiently focused and adequately tailored to member countries' different policies and economic starting point. This is to be achieved by using pre-set qualification criteria under the FCL and making traditional conditionality more flexible. In particular, monitoring of structural reforms is now conducted fully in the context of program reviews, with the use of structural performance criteria discontinued in all IMF arrangements, including those for low-income countries.