INTERNATIONAL MONETARY FUND

# IMF POLICY PAPER

May 2017

## ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING, 2017

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 15, 2017 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on April 13, 2017 for the Executive Board's consideration on May 15, 2017.

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**IMF Executive Board Reviews Eligibility to Use the Fund's Facilities for Concessional Financing for 2017**

On May 15, 2017, the Executive Board of the International Monetary Fund (IMF) reviewed the framework for determining eligibility of member countries to use concessional financial resources under the Poverty Reduction and Growth Trust (PRGT) and the current list of PRGT-eligible countries.

## Background

The PRGT eligibility framework, which was introduced in 2010, includes transparent and rules-based criteria to guide decisions on the eligibility of countries to access the Fund's concessional facilities. It is designed to ensure uniformity of treatment among members, alignment of access to concessional resources with PRGT objectives, and consistency with the financial self-sustainability of the PRGT. The framework and the list of PRGT-eligible members are normally reviewed every two years, with the most recent review completed on July 17, 2015.

The framework includes differentiated criteria for entry and graduation. In general terms, countries enter onto the list of PRGT-eligible countries when their income per capita is below a specified threshold and they do not have the capacity to access international financial markets on a durable and substantial basis. Countries are expected to graduate from the list when they have achieved income per capita levels that exceed specified thresholds or have established the capacity to access external commercial financing on a durable and substantial basis and they do not face serious short-term vulnerabilities.

## Executive Board Assessment[1]

Executive Directors welcomed the opportunity to review the PRGT-eligibility framework and the associated list of PRGT-eligible countries. They emphasized that PRGT eligibility should continue to be guided by a framework that is transparent and rules-based, ensures uniformity of

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

treatment among members in similar circumstances, and preserves the Fund's scarce concessional resources for the use of low-income members that are most in need, while maintaining the self-sustainability of PRGT lending. Directors reiterated that the eligibility framework should remain broadly aligned with International Development Association (IDA) practices, while allowing scope for some differences given the different mandates of the two institutions.

Directors generally concurred that the existing framework remains broadly appropriate, and did not see a need to introduce changes at this time. In this context, they noted that none of the countries that graduated recently from the PRGT-eligibility list are currently at risk of re-entering it.

Directors agreed that no members are currently eligible for entry onto, or graduation from, the list of PRGT-eligible countries. They encouraged staff to continue monitoring closely the potential demand for PRGT resources, underscoring the importance of maintaining the self-sustained capacity of the PRGT. In this regard, Directors welcomed that the decision to keep the list of PRGT-eligible countries unchanged at this review is consistent with the principle of self-sustainability of the PRGT. Noting that 13 countries meet the income and/or market access criteria but are assessed to face serious short-term vulnerabilities, Directors emphasized the importance of continuing to help these countries address these vulnerabilities and move towards graduation.

Directors agreed that the next review of PRGT eligibility would be held on the standard two-year cycle.

April 13, 2017

# ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING, 2017

## EXECUTIVE SUMMARY

**The review of PRGT-eligibility, conducted biennially, is guided by a transparent, rules-based, and parsimonious framework.** The framework determines which IMF members can access concessional resources based on an assessment of their level of income per capita, market access, and serious short-term vulnerabilities. Application of the framework should be consistent with the self-sustainability of the PRGT's lending capacity over time.

**This paper concludes that the existing framework remains generally appropriate.** The PRGT-eligibility framework is broadly aligned with the World Bank's International Development Association practices, with minor differences between the lists of eligible countries explained by differences in the mandates of the two institutions and the timing of their respective review cycles. None of the countries that have graduated from the PRGT-eligibility list are at immediate risk of re-entering it.

**No country is proposed for graduation from or entry onto the PRGT-eligibility list.** While thirteen countries meet either the income or market access graduation criterion, all are assessed to be facing serious short-term vulnerabilities and thus none are proposed for graduation. No non-PRGT-eligible country meets the criteria for entry onto the PRGT-eligibility list.

**The proposal to keep the list of PRGT-eligible countries unchanged is consistent with the self-sustained capacity of the PRGT.**

Approved By
**Seán Nolan, Sean Hagan, and Andrew Tweedie**

Prepared by the Strategy, Policy and Review Department, Finance Department, and Legal Department, in consultation with other departments. The staff team that prepared the report was comprised of Peter Allum, Steven Barnett, Xavier Maret, Wes McGrew, Svitlana Maslova, and Atticus Weller (all SPR); Olaf Unteroberdoerster, Chris Geiregat, and Mariusz Sumlinski (all FIN); and Gabriela Rosenberg and Gomiluk Otokwala (all LEG). Corinne Stephenson provided research assistance, while Reem Disu and Merceditas San Pedro-Pribram provided administrative support. The paper was produced under the overall guidance of Seán Nolan, David Andrews, and Ceda Ogada.

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# Acronyms and Abbreviations

| | |
|---|---|
| BEL | Bonds, Equities, and Loans |
| DSA | Debt Sustainability Analysis |
| GNI | Gross National Income |
| IDA | International Development Association |
| IDS | International Debt Statistics |
| LICs | Low-Income Countries |
| PRGT | Poverty Reduction and Growth Trust |
| WB | World Bank |

# INTRODUCTION

1. **The list of members eligible to use Poverty Reduction and Growth Trust (PRGT) resources and the PRGT-eligibility criteria are reviewed every two years.** During the 2015 Review[1], the assessment of domestic and/or private external debt was incorporated into the assessment of overall debt vulnerabilities. Further, application of the serious short-term vulnerabilities criterion was limited for richer countries and the use of additional data sources was formally introduced in the assessment of market access. Four countries (Bolivia, Mongolia, Nigeria, and Vietnam) graduated from the list of PRGT-eligible countries.

2. **Content of the paper.** The next two sections of the paper describe the current PRGT-eligibility framework and assess the alignment between the framework and International Development Association (IDA) practices. This is followed by an assessment of the risk that members that graduated from the PRGT-eligibility list could re-enter it. The next section reviews the PRGT-eligibility framework and applies it to determine if any members meet the criteria for graduation from or entry onto the PRGT-eligibility list. The last section considers the potential impact of the current review on the self-sustained capacity of the PRGT.

# CURRENT FRAMEWORK

3. **The PRGT-eligibility framework determines which IMF members can access the PRGT's concessional resources.** The existing transparent and rules-based framework for determining members' eligibility for concessional Fund financing was adopted by the Executive Board in early 2010 and was last modified in 2015 (see Box 1 and Annex I).

4. **The framework's eligibility criteria, focused on a country's per capita income levels and ability to borrow from international capital markets, are closely linked to the PRGT's key objectives.** Countries are eligible for entry onto the PRGT-eligibility list if their annual gross national income (GNI) per capita is below the applicable income threshold <u>and</u> if they do not have the capacity to access international financial markets on a durable and substantial basis. Countries may graduate from the PRGT-eligibility list if their GNI per capita is above the applicable income threshold for a specified period or if they have the capacity to access international markets on a durable and substantial basis, provided that they do not face serious short-term vulnerabilities. The PRGT eligibility framework has different criteria for entry and graduation, with the latter being more demanding to minimize the risk of premature graduation.

[1] See IMF (2015a).

### Box 1. Criteria for Entry and Graduation from PRGT Eligibility [1/]

**Entry:** A member would be added to the list of PRGT-eligible countries if: (i) its annual per capita gross national income, based on the latest available qualifying data, is (a) below the operational IDA cutoff, or (b) less than twice the IDA operational cutoff for small countries (countries with population below 1.5 million but not less than 200,000), or (c) less than five times the IDA operational cutoff for microstates (countries with population below 200,000); and (ii) the sovereign does not have capacity to access international financial markets on a durable and substantial basis. The market access criterion for entry is assessed using the same tests as for graduation (see below) except that market access under the first alternative test exists where bond issuance or disbursements under commercial loans during *at least two of the last five years* are equivalent to a cumulative amount of *at least 25 percent of quota*.

**Graduation:**

**Income Criterion:** The country's annual per capita GNI: (i) has been above the IDA operational cutoff for at least the last five years (for which qualifying data are available); (ii) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (iii) is currently (a) at least twice the operational IDA cutoff, or (b) at least three times the IDA operational cutoff for small countries; or (c) at least six times the IDA operational cutoff for microstates.

**Or:**

**Market Access Criterion:** The sovereign has the capacity to access international financial markets on a durable and substantial basis, as measured by one of the following two alternative tests.

- The existence of such capacity would normally be evidenced by public sector issuance or guaranteeing of external bonds or by disbursements under public and publicly guaranteed external commercial loans in international markets during *at least three of the last five years* (for which data are available), in a cumulative amount over that period equivalent to *at least 50 percent of the country's quota* at the Fund at the time of the assessment. External bonds and commercial loans issued or contracted in markets that are not integrated with broader international markets do not qualify.

- As an alternative, a country would also be deemed to meet the market access criterion if there were convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, considering such relevant factors as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating.

### Box 1. Criteria for Entry and Graduation from PRGT Eligibility (concluded)

Both tests of the market access criterion would take into account bonds/loans issued, contracted, or guaranteed by non-sovereign public sector debtors, where such a debtor's ability to access international markets is assessed to be an indicator of the sovereign's creditworthiness. As a further safeguard, countries would be considered candidates for graduation under the market access criterion only if: (a) their annual per capita GNI is above 100 percent of the IDA operational cutoff (based on the latest available qualifying data); and (b) their annual per capita GNI has not been on a declining trend during the last five years for which qualifying data are available (comparing the first and last relevant annual data).

**And:**

**Absence of serious short-term vulnerabilities:** In addition to meeting at least one of the above two criteria, the country should not face serious short-term vulnerabilities. The assessment of these vulnerabilities requires, in particular, the absence of risks of a sharp decline in income, or of a loss of market access, and limited debt vulnerabilities, as indicated by the latest DSA, and a confirmation that overall debt vulnerabilities have remained limited since the DSA was conducted. For a member, whose annual per capita GNI exceeds the applicable income graduation threshold by 50 percent or more, graduation from PRGT-eligibility will not be subject to the assessment of serious short-term vulnerabilities. However, an assessment by the Executive Board of serious short term vulnerabilities will be required where such members have "IDA grant-only" or "IDA loan-grant mix" status at the World Bank, in which case graduation will depend on an assessment that the member does not have such serious short-term vulnerabilities.

[1/] IMF (2009) and the Decisions on PRGT-Eligibility Criteria, IMF (2012, 2013a, and 2015a).

## ALIGNMENT WITH IDA PRACTICES

5. **As requested by the Executive Board, the PRGT-eligibility framework continues to maintain broad alignment with the World Bank's International Development Association (IDA) practices.** The criteria for graduation from the PRGT-eligibility list are quite similar to those used for IDA graduation (Box 2). Both are based on the IDA operational cutoff (i.e., annual GNI per capita) used in the determination of PRGT eligibility. The market access graduation criterion is also somewhat related to the creditworthiness assessment[2] performed by IDA. Both frameworks have special provisions for small states (the IMF framework also has a separate income threshold for micro states).

[2] Assessments of creditworthiness for the International Bank for Reconstruction and Development lending are based on an evaluation of eight broad components: political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payment risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt.

### Box 2. IDA Policies

**Two criteria are used to determine which countries can access IDA resources:** i) relative poverty defined as GNI per capita below the IDA operational cutoff, which is updated annually (in fiscal year 2017, $1,185) and ii) absence of creditworthiness to borrow on market terms, and therefore a need for concessional resources to finance the country's development program. An exception to the GNI per capita operational cutoff for IDA eligibility has been made for small economies on the basis of their vulnerability. In addition to these technical criteria, the IDA process also takes into account country-specific circumstances, including macroeconomic vulnerabilities, poverty, and level of development, as countries may remain vulnerable even when their income exceeds the cutoff.

**The graduation process from IDA usually takes several years.** Countries typically move from IDA-only non-gap, to IDA-only gap, to IDA-blend, and then graduate to IBRD-only status. The steps are as follows:

- *IDA-only non-gap to IDA-only gap:* countries that have been above the IDA operational cutoff for more than two years but are not yet deemed creditworthy for IBRD financing are classified as "gap" countries;

- *IDA-only non-gap or IDA-only gap to blend: a* positive creditworthiness assessment by the IBRD leads to reclassification of a country from IDA-only non-gap or IDA-only gap status to blend status (IDA/IBRD). The shift to blend status rarely occurs before a country reaches the IDA operational cutoff and IDA-only gap status. Once a country becomes blend, IBRD financing is phased in while IDA financing is gradually phased out; and

- *Blend to IBRD-only:* the process concludes with reclassification from blend to IBRD-only status, with no access to new IDA resources. On average, IDA countries remain in blend status for approximately two IDA replenishment cycles (six years). Graduation usually occurs at the end of an IDA replenishment period.

IDA-only non-gap countries can be further subdivided into three groups: a) 'grant-only' countries assessed to be at high risk of debt distress; b) countries assessed at medium risk of debt distress that receive support in the form of a loan-grant mix; and c) countries at low risk of debt distress that receive support in the form of loans on regular IDA terms.

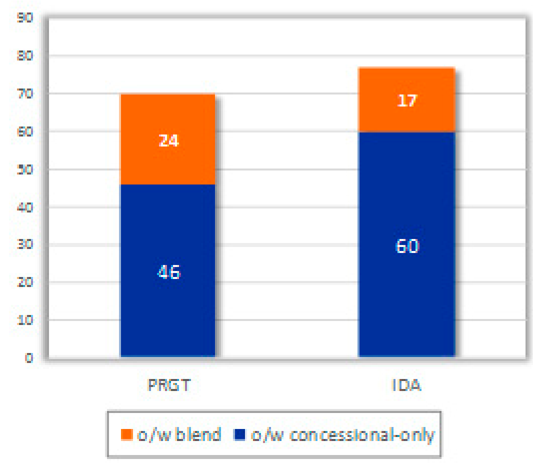
In 2014, nonconcessional transitional support was introduced to smooth the path to graduation for countries with per capita GNI below the income threshold, significant poverty, and risk of reduction in available financing from the World Bank after graduation. India became the first country to avail of such support and qualified for an exceptional allocation of SDR2.3 billion (approximately US$3.5 billion at the IDA17 reference exchange rate) in assistance during the IDA17 Replenishment period.

6. **The most recent assessment of IDA's graduation policy took place in January 2017 and the World Bank Board kept IDA's eligibility criteria broadly unchanged.** It was decided to retain IDA's current approach to graduation decisions and concluded that IDA's operational cutoff was set at an appropriate level and did not need to be modified. The Board also agreed to extend the most concessional IDA lending terms for small-island states to all IDA-eligible small states; Bhutan,

Djibouti, Guyana, and Timor-Leste will benefit from these terms during the Eighteenth Replenishment of IDA resources (IDA 18).

**7. As of March 2017, IDA and PRGT eligibility were aligned in all but eight cases, none of which is currently PRGT-eligible** (Figure 1)**.** Of the eight, Mongolia, Nigeria, and Pakistan have blended access to IDA and IBRD resources, while Kosovo has access to IDA-only resources. Bolivia, Sri Lanka, and Vietnam, currently recipients of blended assistance, will formally graduate from IDA by the end of the IDA 17 period in June 2017, but will have exceptional IDA transitional support during the IDA18 period.[3] India graduated from IDA in 2014 but has access to IDA transitional support through the end of IDA 17.

**Figure 1. PRGT-vs. IDA-Eligible Countries by Type**




Sources: IMF and World Bank.

**8. Divergences between the lists of IDA- and PRGT-eligible countries reflect differences in the mandates of the World Bank and IMF as well as the timing of their respective review cycles.** The nature of the institutions' financing differs: World Bank financing is generally geared to deliver a steady flow of long-term development financing, whereas the IMF mainly provides temporary balance of payments support. In addition, while all IMF members have recourse to the General Resource Account financing, provided that applicable policies are met, IDA-eligible countries have at most limited recourse to lending by the IBRD.

# RISK OF REVERSE GRADUATION

**9. The graduation criteria are designed to minimize the risk that after graduation a member may re-enter the list of PRGT-eligible members due to a loss of income and market access (reverse graduation).** Twelve countries have graduated from the PRGT-eligibility list since the adoption of the current eligibility framework in 2010 (Table 1). The pace of graduating countries has been measured and non-linear, and has been based on the number of countries meeting the graduation criteria, including an assessment of their short-term vulnerabilities. Six countries graduated in 2010 followed by none in 2012, two in 2013, and four in 2015. Out of these graduates, six countries (in addition to meeting the 'absence of serious short-term vulnerabilities' criterion) met the income graduation criterion, four countries met the market access graduation criterion, and two countries met both criteria. Many countries met the income or market access graduation criteria in

[3] In March 2016, the IDA Board concluded that the nine other blend countries – Cameroon, Republic of the Congo, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Timor-Leste, and Uzbekistan – were not ready for graduation due to the presence of significant macroeconomic, social, and structural vulnerabilities. Out of these blends, two countries (Mongolia and Nigeria) graduated from the PRGT-eligibility list in 2015.

the previous reviews but failed to satisfy 'the absence of serious short-term vulnerabilities' criterion, and therefore were not proposed for graduation.

**Table 1. PRGT Graduates 2010–15**

| Year | Country | Met criterion | DSA rating | Met graduation criteria in previous review | IDA status at time of graduation |
|---|---|---|---|---|---|
| 2015 | Bolivia | Income | Low | No | Blend |
| | Mongolia | Income | High | No | Blend |
| | Nigeria | Income | Low | No | Blend |
| | Vietnam | Market | Low | Yes | Blend |
| 2013 | Armenia | Income | Low | Yes | Blend |
| | Georgia | Income & Market | Moderate | Yes | Blend |
| 2012 | N/A | | | | |
| 2010 | Albania | Income | Sustainable* | N/A | Graduated 2008 |
| | Angola | Income & Market | Moderate | N/A | IDA |
| | Azerbaijan | Income | Sustainable* | N/A | Blend |
| | India** | Market | Sustainable* | N/A | Blend |
| | Pakistan | Market | Sustainable* | N/A | Blend |
| | Sri Lanka | Market | Moderate | N/A | IDA |

*Based on MAC-DSA.
**In 2010, India's cumulative market access over the previous five years was below 100 percent of quota, but the market access criterion was assessed as met based on India's investment grade sovereign credit rating. Pre-2013, annual per capita GNI was required to be above 80 percent of the IDA operational cutoff to qualify under the market access criterion.

**10. None of the recent graduates are currently at risk of reverse graduation.** GNI per capita in the recent graduates is at present well above the relevant income entry thresholds. Furthermore, income in most countries that have graduated from the PRGT-eligibility list has surged since graduation, with the exception of income in commodity-rich countries, hit by the drop in commodity prices in 2015 (Charts 2 and 3). Income in Albania has been range-bound, as the economy was impacted by developments in the Euro Area, its main trading partner. GNI per capita has declined from its graduation level only in Mongolia, which was hit hard by the decline in global commodity prices; the most recent GNI per capita level still exceeds the graduation threshold by 63 percent. All of the twelve graduate countries have had access to global capital markets in the years since their graduation.

**Figure 2. GNI per Capita of 2010 Graduates**
(2008=100)

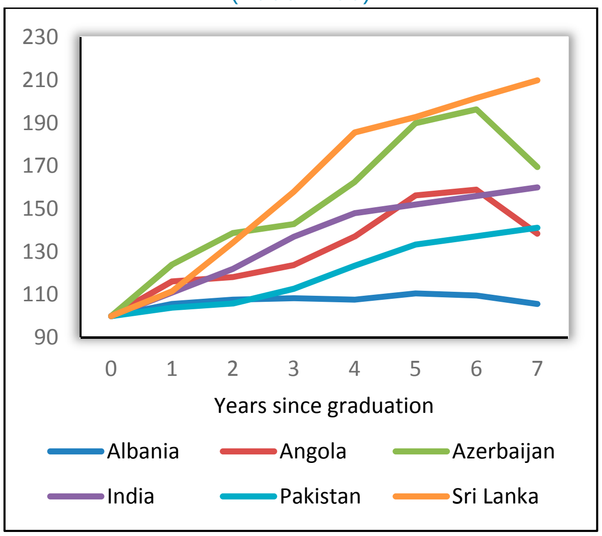
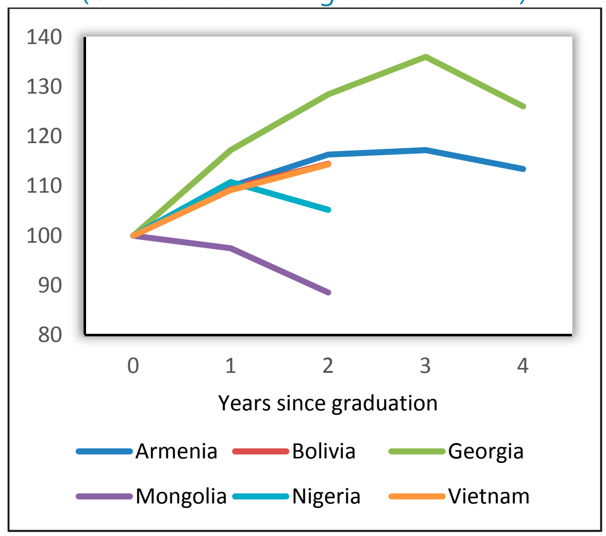



**Figure 3. GNI per Capita of Recent Graduates [1/]**
(GNI at the time of graduation=100)




Source: World Bank, World Development Indicators.

[1/]The 2011 GNI per capita is equal to 100 for Armenia and Georgia, for other countries the 2013 GNI per capita is equal to 100.

# ASSESSMENT OF THE FRAMEWORK AND LIST OF COUNTRIES ELIGIBLE FOR PRGT GRADUATION

**11. No modifications are proposed to the PRGT-eligibility framework.** The framework appears to be broadly appropriate as none of the countries that have graduated from the list seem to be at risk of reverse graduation. Further, the current framework is well aligned with IDA practices given the relatively small number of differences between the lists of IDA- and PRGT-eligible countries. Staff's proposal not to graduate any of the current PRGT-eligible members is also consistent with the financial self-sustainability of the PRGT (see below).

**12. Based on the framework, thirteen countries are in principle eligible for graduation from the PRGT-eligibility list and no new countries qualify for entry onto the list** (Annex II)**.** Of the thirteen PRGT-eligible members that meet the income and/or market access criteria for graduation (Table 2), seven meet the criteria for the first time (Bhutan, Cameroon, Honduras, Kenya, Lao PDR, St. Lucia, and Zambia) while six countries that met the income or market access graduation criterion at the time of the 2015 review (but did not graduate) continue to meet them (Congo, Rep; Cote d'Ivoire; Ghana; Grenada; Guyana; and Maldives).

- **Bhutan, Cote d'Ivoire, Honduras,** and **Kenya** meet the market access graduation criterion and are not assessed to be at high risk of debt distress or in debt distress;

- **Guyana** meets the income graduation criterion and is not assessed to be at high risk of debt distress or in debt distress;

- **The Republic of the Congo** meets both the market access and income graduation criteria and is not assessed to be at high risk of debt distress or in debt distress;

- **Cameroon, Ghana, Grenada, Lao PDR, Maldives, St. Lucia,** and **Zambia** meet the income and/or market access criteria but are assessed to be at high risk of debt distress or in debt distress and therefore cannot be considered for PRGT graduation.

**Table 2. Countries that Meet Income and/or Market Access Graduation Criteria [1/]**

| Country | Met criterion | DSA rating | Met graduation criteria in 2015 review | IDA status | Percentage deviation from income graduation threshold | Market access frequency in last five years |
|---|---|---|---|---|---|---|
| Bhutan | Market | Moderate | | IDA | -33.1 | 4/5 |
| Cameroon | Market | High | | Blend | -44.3 | 5/5 |
| Congo, Rep. | Income&Market | Moderate | Yes | Blend | 7.2 | 4/5 |
| Côte d'Ivoire | Market | Moderate | Yes | IDA | -40.1 | 4/5 |
| Ghana | Market | High | Yes | IDA | -37.6 | 5/5 |
| Grenada | Income | In debt distress | Yes | Blend | 21.7 | 0/5 |
| Guyana | Income | Moderate | Yes | IDA | 15.0 | 0/5 |
| Honduras | Market | Moderate | | IDA | -3.8 | 4/5 |
| Kenya | Market | Low | | IDA | -43.5 | 5/5 |
| Lao PDR | Market | High | | IDA | -26.6 | 5/5 |
| Maldives | Income&Market | High | Yes | IDA grant only | 95.5 | 4/5 |
| St. Lucia | Income | High | | Blend | 3.4 | 1/5 |
| Zambia | Market | High 2/ | | IDA | -37.1 | 3/5 |

Source: Fund staff estimates.

[1/] Countries may graduate from PRGT eligibility if they either reach the applicable level of GNI per capita for a specific period or if they have the capacity to access international financial markets on a durable and substantial basis, provided they do not face serious short-term vulnerabilities. The short-term vulnerabilities criterion does not apply in countries that exceed by 50 percent or more the applicable income graduation threshold, provided such countries are not recipients of "IDA grant-only" or "IDA loan-grant mix" assistance.

[2/] Risk of external debt distress is moderate, but overall debt distress is assessed to be high.

13. **While six countries meet either the income or market access graduation criterion and are not assessed to be at high risk of debt distress or in debt distress, they are not proposed for graduation, as they currently face other serious short-term vulnerabilities** (Annex III). GNI per capita is below the relevant income graduation threshold in all of the countries except the Republic of Congo and Guyana, and at or very close to the PRGT income entry threshold in Bhutan, Cote d'Ivoire, and Kenya, posing a risk that a decline in growth could cause one or more of these countries to reverse graduate (other criteria being met). In addition, all countries except for the Republic of Congo are IDA-only, so premature graduation from the PRGT would lead to a prolonged misalignment with the countries' IDA status, undermining the goal of maintaining broad alignment of the PRGT with the practices of the IDA.

- **Bhutan** is increasingly dependent on electricity exports to India and has accumulated substantial external debt to finance hydropower development. Given weak debt management capacity and the uncertain impact of hydropower expansion, the country faces serious short-term vulnerabilities. With Bhutan's GNI per capita at a level similar to the PRGT income entry threshold, even a small negative growth shock could cause the country to return to the list of PRGT-eligible countries (other criteria being met).

- **The Republic of the Congo** is highly dependent on commodity exports and has been hard hit by a decline in oil prices. The negative shocks have led to a sharp erosion of fiscal and external buffers and a rapid accumulation of debt.

- **Cote d'Ivoire** has been hit by a negative terms of trade shock requiring international support, including from the IMF. It also currently faces vulnerabilities from the financial sector, where some public banks are capital deficient. Given the rising economic vulnerabilities, a negative shock could lead to a decline in GNI per capita.

- **Guyana** is exposed to commodity price volatility, U.S. dollar appreciation, and de-risking by global banks. Public debt is expected to rise sharply in the years ahead as the authorities have initiated an ambitious investment program. In addition, the recent increase in NPLs highlights risks to macro-financial stability. These developments point to rising debt vulnerabilities.

- **Honduras**' serious short-term vulnerabilities stem from domestic risks, including those related to high crime and corruption. Strong implementation of structural reforms is needed to tackle vulnerabilities, but may prove difficult in light of the electoral cycle. Such vulnerabilities could undermine market access.

- In **Kenya**, growth has been negatively affected by a sharp credit slowdown owing in part to recently-introduced interest rate controls and by a drought, which has reduced agricultural output and pushed inflation up. General elections, scheduled for August 2017, may impede fiscal consolidation plans and potentially lead to heightened political uncertainty. These vulnerabilities point to a risk of a sharp income decline and loss of market access.

# FINANCING IMPLICATIONS

**14. The self-sustained capacity of the PRGT can accommodate the staff's proposal not to graduate countries from the PRGT-eligibility list in this review.** As indicated in the most recent *Update on the Financing of the Fund's Concessional Assistance*[4] based on the set of LIC members currently eligible to access PRGT resources and assumptions on graduation from PRGT eligibility over the long term, staff projections suggest that the overall annual average demand for the IMF concessional resources for 2017–31 would be in the range of SDR 1.1-1.8 billion. This is broadly in

[4] See IMF (2017).

line with the demand range projected at the time of the 2015 PRGT-eligibility review and consistent with the PRGT's self-sustained capacity, currently estimated at about SDR 1.3 billion. Longer-term projections assume continued graduation of countries from the PRGT-eligibility list in future reviews. Income projections indicate that a further 18 countries could potentially graduate from the PRGT-eligibility list in 2018–25; the pace of graduation could be faster, if more PRGT-eligible countries acquired market access in the future, or slower, if these countries faced serious short-term vulnerabilities.

**Table 3. Projected Demand for PRGT Resources Under Alternative Scenarios**

| | 2017–21 | | 2017–26 | | 2017–31 | |
|---|---|---|---|---|---|---|
| | Low-case scenario | High-case scenario | Low-case scenario | High-case scenario | Low-case scenario | High-case scenario |
| **Average annual demand 1/** | | | | | | |
| 2015 PRGT eligibility review 2/ | | | 1.0 | 1.5 | 1.1 | 1.9 |
| Updated baseline 3/ 4/ | 1.2 | 1.7 | 1.0 | 1.7 | 1.1 | 1.8 |

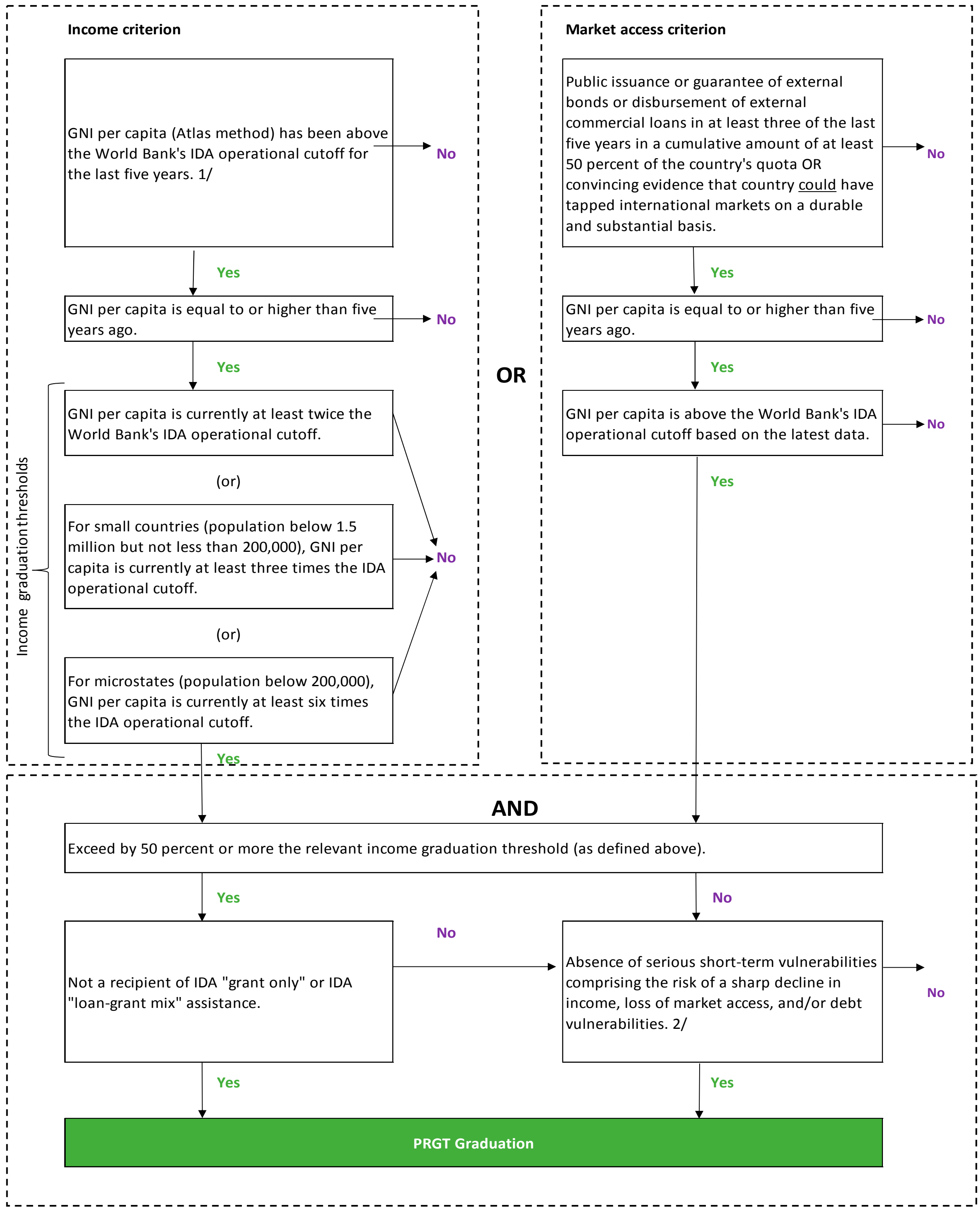
1/ The low-case scenario assumes that about 30 percent of PRGT-eligible countries would resort to Fund financing in any given year, while the high-case scenario assumes that some 55 percent of the countries request some form of Fund financial support in any given year. Estimates incorporate modifications to the interest rate setting mechanism approved in October 2016.
2/ See IMF (2015). Estimates covered the years 2015–25 and 2015–37.
3/ Based on 50 percent reduction in access norms and limits (in percent of quota; IMF (2013b)) following the quota increase under the Fourteenth General Review of Quotas approved in 2016. Access in nominal SDR terms increases 24.2 percent at three-year intervals, starting in 2020 (IMF (2015b)). The baseline also incorporates other methodological issues such as (i) applying the vulnerability criterion to the graduation and blending assumptions; and (ii) aligning the graduation assumptions with the two-year PRGT-eligibility review cycle.
4/ For PRGT-eligible countries that are presumed to blend, it is assumed that a third of access to Fund resources is from the PRGT (IMF (2015b)).

# ISSUES FOR DISCUSSION

- Do Directors agree that the existing PRGT eligibility framework remains broadly appropriate and does not require changes at this time?

- Do Directors agree that no country should be graduated from or provided entry onto the PRGT-eligibility list at this time?

# Annex I. PRGT Graduation Criteria




[1/] The World Bank operational cutoff is $1,185 in FY2017. The operational cutoff is revised on an annual basis every July.

[2/] An external debt distress classification of high or in debt distress, or an assessment of a heightened overall risk of debt distress, based on the latest DSA for LICs, would normally indicate the presence of debt vulnerabilities.

# Annex II. Tables on GNI Per Capita and Debt

## Annex Table 1. PRGT-Eligible Countries: Per Capita GNI, Population, and Debt Distress

| Country | 2015 GNI per capita (US $) | 2015 Population (millions) | Debt Distress (Feb 2017) | Country | 2015 GNI per capita (US $) | 2015 Population (millions) | Debt Distress (Feb 2017) |
|---|---|---|---|---|---|---|---|
| Afghanistan | 610 | 32.53 | High | Maldives | 6950 | 0.41 | High |
| Bangladesh | 1190 | 161.00 | Low | Mali | 760 | 17.60 | Moderate |
| Benin | 840 | 10.88 | Low | Marshall Islands | 4770 | 0.05 | High |
| Bhutan | 2380 | 0.77 | Moderate | Mauritania | 1370 [1/] | 4.07 | High |
| Burkina Faso | 640 | 18.11 | Moderate | Micronesia | 3560 | 0.10 | High |
| Burundi | 260 | 11.18 | High | Moldova | 2240 | 3.55 | Low |
| Cambodia | 1070 | 15.58 | Low | Mozambique | 590 | 27.98 | Moderate |
| Cameroon | 1320 | 23.34 | High | Myanmar | 1160 | 53.90 | Low |
| Cabo Verde | 3280 | 0.52 | High | Nepal | 730 | 28.51 | Low |
| Central African Republic | 330 | 4.90 | High | Nicaragua | 1940 | 6.08 | Moderate |
| Chad | 880 | 14.04 | High | Niger | 390 | 19.90 | Moderate |
| Comoros | 780 | 0.79 | Moderate | Papua New Guinea | 2240 [1/] | 7.62 | Low |
| Congo, Rep. | 2540 | 4.62 | Moderate | Rwanda | 700 | 11.61 | Low |
| Congo, Dem. Rep. | 410 | 77.27 | Moderate | Samoa | 3930 | 0.19 | Moderate |
| Côte d'Ivoire | 1420 | 22.70 | Moderate | São Tomé and Principe | 1760 | 0.19 | High |
| Djibouti | 1030 [1/] | 0.89 | High | Senegal | 980 | 15.13 | Low |
| Dominica | 6800 | 0.07 | High | Sierra Leone | 620 | 6.45 | Moderate |
| Eritrea | 480 [1/] | 0.00 | In debt distress | Solomon Islands | 1920 | 0.58 | Moderate |
| Ethiopia | 590 | 99.39 | Moderate | Somalia | n.a. | 10.79 | ... |
| Gambia, The | 460 [1/] | 1.99 | Moderate | South Sudan | 790 | 12.34 | Moderate |
| Ghana | 1480 | 27.41 | High | St. Lucia | 7350 | 0.18 | High |
| Grenada | 8650 | 0.11 | In debt distress | St.Vincent and the Grenadines | 6630 | 0.11 | High |
| Guinea | 470 | 12.61 | Moderate | Sudan | 1920 | 40.23 | In debt distress |
| Guinea-Bissau | 590 | 1.84 | Moderate | Tajikistan | 1280 | 8.48 | Low |
| Guyana | 4090 | 0.77 | Moderate | Tanzania | 920 | 53.47 | Low |
| Haiti | 810 | 10.71 | High | Timor-Leste | 2180 | 1.25 | Moderate |
| Honduras | 2280 | 8.08 | Moderate | Togo | 540 | 7.30 | Moderate |
| Kenya | 1340 | 46.05 | Low | Tonga | 4280 | 0.11 | Moderate |
| Kiribati | 3390 | 0.11 | High | Tuvalu | 6230 | 0.01 | High |
| Kyrgyz Republic | 1170 | 5.96 | Moderate | Uganda | 700 | 39.03 | Low |
| Lao PDR | 1740 | 6.80 | High | Uzbekistan | 2160 | 31.30 | Low |
| Lesotho | 1330 | 2.14 | Moderate | Vanuatu | 3160 [1/] | 0.26 | Moderate |
| Liberia | 380 | 4.50 | Moderate | Yemen | 1140 | 26.83 | High |
| Madagascar | 420 | 24.24 | Moderate | Zambia | 1490 | 16.21 | Moderate |
| Malawi | 340 | 17.22 | Moderate | Zimbabwe | 860 | 15.60 | In debt distress |
| **Memorandum Item** | | | | **Recent Graduates** | | | |
| Armenia | 3880 | 3.02 | n.a. | Bolivia | 3000 | 10.72 | n.a. |
| Georgia | 4160 | 3.68 | n.a. | Mongolia | 3870 | 2.96 | n.a. |
| India | 1600 | 1311.05 | n.a. | Nigeria | 2820 | 182.20 | n.a. |
| Kosovo | 3950 | 1.82 | n.a. | Vietnam | 1990 | 91.70 | n.a. |
| Pakistan | 1440 | 188.92 | n.a. | | | | |
| Sri Lanka | 3800 | 20.97 | n.a. | | | | |

Sources: Fund WEO, World Bank, World Development Indicators, accessed on March 1, 2017.

[1/] Data for 2015 are not available. 2014 data are given for: The Gambia, Lesotho, Mauritania, Papua New Guinea, Vanuatu. 2011 data are given for Eritrea. 2005 data are given for Djibouti. The IDA operational cutoff for fiscal year 2017 is defined as a 2015 GNI per capita at $1,185.

## Annex Table 2. PRGT-Eligible Countries: Public and Publicly-Guaranteed (PPG) Debt, and GNI per Capita

| | PPG external bonds and commercial loans 1/ (Disbursements in millions of US dollars) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Cumulative 2011-2015 (in % of Quota 2016) | Cumulative 2012-2016 (in % of Quota 2016) | GNI per capita, Atlas Method 2015 | 2015 GNI per capita - at 100 percent of IDA threshold ($1185) |
| Afghanistan | - | - | - | - | - | - | - | - | 610 | |
| Bangladesh | - | - | - | - | - | - | - | - | 1190 | ✔ |
| Benin | - | - | - | - | - | - | - | - | 840 | |
| Bhutan | 9 | 9 | 9 | 7 | - | - | 123 | 90 | 2380 | ✔ |
| Burkina Faso | - | - | - | - | - | - | - | - | 640 | |
| Burundi | - | - | - | - | - | - | - | - | 260 | |
| Cambodia | - | - | - | - | - | - | - | - | 1070 | |
| Cameroon | 5 | 22 | 45 | 40 | 843 | - | 256 | 255 | 1320 | ✔ |
| Cabo Verde | 25 | 43 | 64 | 96 | 29 | - | 804 | 724 | 3280 | ✔ |
| Central African Republic | - | - | - | - | - | - | - | - | 330 | |
| Chad | - | - | - | - | - | - | - | - | 880 | |
| Comoros | - | - | - | - | - | - | - | - | 790 | |
| Congo, Rep. | 112 | 150 | 110 | 49 | - | - | 193 | 141 | 2540 | ✔ |
| Congo, Dem. Rep. | - | - | - | - | 5 | - | 0 | 0 | 410 | |
| Côte d'Ivoire | - | 1,167 | 1,251 | 754 | 1,000 | - | 476 | 476 | 1420 | ✔ |
| Djibouti | - | - | - | - | - | - | - | - | 1030 | |
| Dominica | 2 | - | - | - | - | - | 12 | - | 6800 | ✔ |
| Eritrea | - | - | - | - | - | - | - | - | 480 | |
| Ethiopia | 473 | 617 | 385 | 1,377 | 793 | - | 899 | 782 | 590 | |
| Gambia, The | - | 7 | 3 | 1 | - | - | 14 | 14 | 460 | |
| Ghana | 506 | 278 | 1,744 | 1,694 | 1,728 | 750 | 598 | 622 | 1480 | ✔ |
| Grenada | - | - | - | - | - | - | - | - | 8650 | ✔ |
| Guinea | - | - | - | - | - | - | - | - | 470 | |
| Guinea-Bissau | - | - | - | - | - | - | - | - | 590 | |
| Guyana | - | - | - | - | - | - | - | - | 4090 | ✔ |
| Haiti | - | - | - | - | - | - | - | - | 810 | |
| Honduras | - | 20 | 1,082 | 125 | 0 | - | 364 | 364 | 2280 | ✔ |
| Kenya | 14 | 677 | 14 | 2,756 | 753 | 500 | 576 | 642 | 1340 | ✔ |
| Kiribati | - | - | - | - | - | - | - | - | 3390 | ✔ |
| Kyrgyz Republic | - | - | - | - | - | - | - | - | 1170 | |
| Lao PDR | 3 | 1 | 145 | 170 | 614 | 85 | 654 | 711 | 1740 | ✔ |
| Lesotho | - | - | - | - | - | - | - | - | 1330 | ✔ |
| Liberia | - | - | - | - | - | - | - | - | 380 | |
| Madagascar | 0.02 | 3 | 3 | 2 | 73 | - | 24 | 24 | 420 | |
| Malawi | - | - | - | - | - | - | - | - | 340 | |
| **Key non-eligible countries** | | | | | | | | | | |
| Bolivia | 66 | 566 | 500 | - | - | - | 350 | 329 | 3000 | ✔ |
| Mongolia | - | 1,500 | - | - | - | 500 | 1,539 | 2,051 | 3870 | ✔ |
| Nigeria | 500 | - | 500 | - | - | - | 30 | 15 | 2820 | ✔ |
| Vietnam | 750 | 1,247 | 2,212 | 2,140 | 436 | 550 | 436 | 424 | 1990 | ✔ |
| Pakistan | - | - | - | 3,768 | 1,733 | 1,868 | 201 | 269 | 1440 | ✔ |
| Maldives | 33 | 2 | 7 | 0.1 | - | - | 144 | 29 | 6950 | ✔ |
| Mali | 0.01 | - | 0.33 | 0.0 | - | - | 0.15 | 0.14 | 760 | |
| Marshall Islands | - | - | - | - | - | - | - | - | 4390 | ✔ |
| Mauritania | - | - | - | - | - | - | - | - | 1370 | ✔ |
| Micronesia | - | - | - | - | - | - | - | - | 3200 | ✔ |
| Moldova | 4 | 17 | 7 | 4.8 | 3.0 | - | 15 | 14 | 2240 | ✔ |
| Mozambique | 139 | 28 | 872 | 405 | 605 | 727 | 669 | 861 | 590 | |
| Myanmar | - | - | - | - | - | - | - | - | 1280 | ✔ |
| Nepal | - | - | - | - | - | - | - | - | 730 | |
| Nicaragua | - | - | - | - | - | - | - | - | 1940 | ✔ |
| Niger | - | - | - | - | - | 64 | - | 36 | 390 | |
| Papua New Guinea | - | - | - | - | - | - | - | - | 2240 | ✔ |
| Rwanda | - | - | 400 | 122 | - | - | 242 | 242 | 700 | |
| Samoa | - | - | - | - | - | - | - | - | 3930 | ✔ |
| São Tomé and Principe | - | - | - | - | - | - | - | - | 1670 | ✔ |
| Senegal | 500 | 2 | - | 510 | - | - | 232 | 117 | 980 | |
| Sierra Leone | - | - | - | - | - | - | - | - | 620 | |
| Solomon Islands | - | - | - | - | - | - | - | - | 1920 | ✔ |
| Somalia | - | - | - | - | - | - | - | - | n.a. | ✔ |
| South Sudan | - | - | - | - | - | - | - | - | 790 | |
| St. Lucia | - | - | - | - | 2.0 | - | 7 | 7 | 7350 | ✔ |
| St.Vincent and the Grenadines | - | - | 1 | 8.0 | - | - | 57 | 57 | 6630 | ✔ |
| Sudan | - | - | - | - | - | - | - | - | 1920 | ✔ |
| Tajikistan | - | - | - | - | - | - | - | - | 1280 | ✔ |
| Tanzania | 304 | 2 | 821 | 60 | 22 | - | 225 | 169 | 920 | |
| Timor-Leste | - | - | - | - | - | - | - | - | 2180 | ✔ |
| Togo | - | - | - | - | 12 | - | 6 | 6 | 540 | |
| Tonga | - | - | - | - | - | - | - | - | 4260 | ✔ |
| Tuvalu | - | - | - | - | - | - | - | - | 5720 | ✔ |
| Uganda | - | - | - | - | - | - | - | - | 700 | |
| Uzbekistan | 75 | 10 | 10 | 116 | 116 | - | 44 | 34 | 2160 | ✔ |
| Vanuatu | - | - | - | - | - | - | - | - | 3160 | ✔ |
| Yemen | - | - | - | - | - | - | - | - | 1300 | ✔ |
| Zambia | - | 750 | - | - | 1,250 | 73 | 152 | 157 | 1490 | ✔ |
| Zimbabwe | - | - | - | 1.1 | - | - | 0.11 | 0.11 | 860 | |

Sources: World Bank, International Debt Statistics, and World Development Indicators. IMF BEL database (sourced from Dealogic).
1/ Data from 2009 to 2015 are from the World Bank International Debt Statistics, accessed March 1, 2017. Data for 2016 are from the IMF BEL database (sourced from Dealogic).

# Annex III. Assessment of Countries that Meet the Income or Market Access Criteria for Graduation and are not Assessed to be at High Risk of Debt Distress or in Debt Distress

**Bhutan:**

**Background.** Bhutan has achieved important economic gains in recent years. Political stability, donor assistance, and increased hydropower generation capacity combined to support a doubling of GNI per capita from US$1,070 in 2004 to $2,370 in 2015. Real GDP growth is expected to reach 6.4 percent in 2016/17 from below 4 percent in FY2012/13 and FY2013/14. Inflation has declined to single digits from over 10 percent (average) in FY2012/13, foreign reserves are robust on the back of a strong financial account, and credit growth remains moderate. The fiscal balance has recorded a surplus in each of the past three years, helped by grants from India, though it is expected to return to deficit in 2016/17 as a result of an acceleration in capital spending. Less favorably, significant borrowing for hydropower-related projects has substantially increased the current account deficit and public and publicly-guaranteed external debt, which are expected to hit 31 percent of GDP and 113 percent of GDP, respectively, in 2016/17. More than 70 percent of the external debt is linked to the development of the hydropower sector. Bhutan is an IDA-only country and is classified at moderate risk of debt distress.

**Assessment:**

*Staff proposes maintaining Bhutan's PRGT eligibility given the presence of serious short-term vulnerabilities.*

**Income Criterion.** Bhutan does not meet the criterion for graduation. In 2015, its GNI per capita was US$2,370, 33 percent below the relevant income graduation threshold.

**Market Access Criterion.** Bhutan meets the criterion for graduation. Bhutan tapped international markets four times during 2011–15, borrowing cumulatively 123 percent of its IMF quota, well above the threshold of 50 percent of quota.

**Serious Short-Term Vulnerabilities.** Increased hydropower investment should drive increased domestic revenue and electricity exports, but also risks overheating the economy and undermining the exchange rate peg to the Indian rupee. With approximately 90 percent of exports going to India and electricity expected to comprise 42 percent of total exports by 2017/18, Bhutan will increasingly be reliant on a single commodity export to a single buyer. Though Bhutan's rating of external debt distress is moderate in view of the fact that loans for hydropower development are guaranteed by the government of India, the quantitative outputs of the most recent DSA indicate a high risk of distress, with Bhutan breaching all indicative thresholds of the LIC-DSA in the baseline. Debt management capacity remains weak and the composition of reserves is misaligned with Bhutan's external liabilities and trade structure. Finally, Bhutan's GNI per capita is equal to the PRGT income entry threshold, indicating that even a small growth shock could cause Bhutan to breach this threshold, pointing to a high risk of reverse graduation back to the list of PRGT-eligible countries (other criteria being met). In light of these risks, staff considers short-term vulnerabilities too elevated to merit graduation from PRGT eligibility at this time.

**Congo, Republic of:**

**Background**. The Republic of the Congo remains highly dependent on commodity exports and has been hard hit by a decline in oil prices, leading to a sharp erosion of fiscal and external buffers and rapid accumulation of debt. Growth slowed significantly to -2.7 percent in 2016 from 2.6 percent in 2015 on declining oil production. The overall fiscal deficit decreased in 2016, but remained very large at 27.0 percent of non-oil GDP, with lower oil prices significantly impacting revenue. Heavy borrowing and valuation losses helped to push the estimated public debt to GDP ratio to almost 79 percent in 2016 from 45 percent in 2014. After widening by over 30 percentage points of GDP to 42.9 percent of GDP in 2015, the current account deficit is estimated to have narrowed in 2016 as lower investment expenditure led to reduced imports. The Republic of the Congo is an IDA blend country that was assessed to be at a moderate risk of debt distress in the most recent DSA (2015).

**Assessment:**

*Staff proposes maintaining the Republic of the Congo's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT eligibility review.*

**Income Criterion.** The Republic of Congo meets the income criterion for graduation with GNI per capita of US$2,540, which is 7 percent above the relevant income graduation threshold. Income per capita has been on an upward trend and has been above the IDA operational threshold over the last five years.

**Market Access Criterion.** The Republic of Congo meets the market access criterion with external borrowing through commercial markets amounting to 129 percent of its IMF quota between 2012-2016 via three issuances.

**Serious Short-Term Vulnerabilities.** The emergence of significant domestic and external arrears and the rapid depletion of imputed reserves raise serious concerns about the sustainability of Congo's current macroeconomic course. Though an increase in oil production from the expected development of new oil fields could improve fiscal and external balances in the medium term, Congo will remain dependent on oil exports and thus highly vulnerable to price shocks. Recent developments point to rising debt vulnerabilities. As a consequence of these factors, we do not recommend the Republic of Congo's graduation from PRGT eligibility at this time.

**Cote d'Ivoire:**

**Background.** Cote d'Ivoire has experienced an impressive turnaround since emerging from civil war in 2011, but has recently experienced domestic tensions coupled with an adverse terms of trade shock. Growth averaged 9 percent during 2012–15, helped by more prudent fiscal and debt management, improved access to capital markets, and the return of foreign direct investment. Strong investment and private consumption are expected to support growth at about 7 ½ percent in 2016, with subdued inflation of 1 percent. Reflecting external borrowing for capital investment projects, the public debt-to-GDP ratio rose from 43 percent in 2013 to an estimated 48 percent in 2016. However, the country was affected by a combination of external and domestic shocks in 2017—a sharp drop in the price of cocoa and intensification of domestic social tensions—that have clouded the macroeconomic outlook and put pressure on fiscal and external positions. Cote d'Ivoire is currently supported by a three-year blend Extended Arrangement and Extended Credit Facility Arrangement, for which the authorities have recently requested a large augmentation. It is an IDA recipient with a moderate risk of debt distress.

**Assessment:**

*Staff proposes maintaining Cote d'Ivoire PRGT eligibility given the presence of serious short-term vulnerabilities.*

**Income Criterion.** Cote d'Ivoire does not meet the income criterion for graduation. In 2015, Cote d'Ivoire's GNI per capita was US$1,410, which is 40 percent below the relevant income graduation threshold.

**Market Access Criterion.** Cote d'Ivoire meets the market access criterion for graduation. It accessed international markets in four out of the last five years in a cumulative amount of 476 percent of its IMF quota.

**Serious Short-Term Vulnerabilities.** Though Côte d'Ivoire is at a moderate risk of debt distress, it faces macroeconomic risks stemming from fragile socio-political environment and financial sector vulnerabilities, including in systematically-important public banks. Tighter and more volatile global financial conditions along with an increased perception of domestic political risks could substantially increase public and private sector funding costs. GNI per capita is well below the relevant IDA income graduation threshold, and poverty remains well above its historical average. In addition, Cote d'Ivoire has experienced significant volatility in GNI per capita: between 1988-1994 and 1997-2002 GNI per capita declined by 25 percent, respectively. This is significantly more than the 20 percent margin by which Cote d'Ivoire's GNI per capita currently exceeds the PRGT income entry threshold, indicating a risk of re-entry onto the eligibility list in the event of a similar shock (other criteria being met). Finally, the authorities' recent request for an augmentation of their ECF/EFF arrangement underscores the weakening of Cote d'Ivoire's macroeconomic outlook. In view of these challenges, staff do not recommend graduation from PRGT eligibility at this time.

**Guyana:**

**Background.** Guyana has experienced a decade of uninterrupted growth. The economy depends on the export of six commodities, which represent nearly 40 percent of GDP. In 2016, subdued global agricultural commodity prices and adverse weather conditions led to a contraction in agriculture, while a slowdown in public investment created slack in the construction sector. Nevertheless, large increases in gold output led to real GDP growth of 3.3 percent in 2016, up from 3.1 percent in 2015. Growth is expected to pick up to 3.5 percent in 2017, supported by an increase in public investment, the development of Guyana's recently discovered oil deposits, and a recovery in rice production. The current account deficit is projected to stabilize at 3½ percent in 2017 (excluding official transfers of about 1 percent of GDP), as a result of a continuation of low oil prices, and reserve coverage to remain at 3.5 months of imports. Consistent with an anticipated increase in capital spending, the fiscal overall balance is expected to deteriorate sharply to -7.2 percent of GDP in 2017 from -2.9 percent in 2016. NPLs are rising, though capital adequacy ratios appear comfortable for the time being. Guyana is an IDA recipient with a moderate risk of debt distress.

**Assessment:**

*Staff proposes maintaining Guyana PRGT eligibility given the presence of serious short-term vulnerabilities.*

**Income Criterion.** Guyana meets the income criterion for graduation with GNI per capita of US$4,090, which is 15 percent above the relevant income graduation threshold. Income per capita has been on an upward trend and has been above the IDA operational threshold over the last five years.

**Market Access Criterion.** Guyana does not meet the market criterion for graduation as it did not access international markets in any of the last five years. Guyana does not have a history of tapping international financial markets and its sovereign debt is not rated by any of the major credit rating agencies. It is thus unlikely to be able to access international markets on a durable and substantial basis.

**Serious Short-Term Vulnerabilities.** Though growth is expected to increase modestly in the near term, supported by public investment and rising gold output, a subdued outlook for non-oil commodity prices and Guyana's de facto linkage to a strong U.S. dollar could create substantial headwinds to growth. A prolonged period of fiscal expansion under the authorities' public investment program is expected to cause the public debt-to-GDP ratio to rise from 48 percent in 2016 to 60 percent in 2020. In addition, oil price volatility represents a major source of fiscal and external vulnerability, particularly after the termination of Guyana's PetroCaribe financing. Finally, Guyana faces macro-financial stability risks stemming from an increase in NPLs and de-risking by global banks, leading to a potential cutoff of correspondent relationships. In view of these developments, staff assesses that Guyana faces serious short-term debt vulnerabilities and does not recommend graduation from PRGT eligibility at this time.

**Honduras:**

**Background.** Over the last several years, domestic security and fiscal discipline have improved, contributing to macroeconomic stabilization. Real GDP is estimated to have increased by 3.6 percent in 2016, supported by a rise in public sector infrastructure investment and a supportive monetary policy stance. Lower oil prices have helped to reduce inflation and narrow the external current account deficit. The banking sector appears to be broadly resilient to most shocks, though the high level of unhedged foreign currency borrowing in some sectors remains a source of concern. Honduras is supported by a three-year Stand-By Arrangement, which the authorities are treating as precautionary. It is an IDA recipient with a moderate risk of debt distress.

**Assessment:**

*Staff proposes maintaining Honduras' PRGT eligibility given the presence of serious short-term vulnerabilities.*

**Income Criterion.** Honduras does not meet the income criterion for graduation. In 2015, Honduras' GNI per capita was US$2,270, which is 4 percent below the relevant income graduation threshold.

**Market Access Criterion.** Honduras meets the graduation criterion. It accessed international markets in four out of the last five years in a cumulative amount of 364 percent of its IMF quota.

**Serious Short-Term Vulnerabilities.** Over the medium term, growth is expected to converge to its potential at 3.8 percent. However, the risks to the outlook are predominantly on the downside due to global uncertainties and domestic risks including those related to high crime and corruption. Achievement of growth potential hinges on continued strong implementation of structural reforms, which may prove difficult, particularly in light of a potentially charged electoral cycle. In view of these developments, which suggest a risk of Honduras potentially losing its market access, staff do not recommend graduation from PRGT eligibility at this time.

**Kenya:**

**Background.**

Real GDP growth has been near 5½ percent for the past few years, driven by expansion in the construction and electricity sectors, favorable weather conditions, and a recovery in tourism. However, a severe and continuing drought slowed growth in the second half of 2016 and contributed to a surge in food prices. Higher food and energy prices boosted inflation to 9 percent in February 2017, above the top of the 5 +/- 2.5 percent inflation targeting band, with core inflation below 4 percent. The current account deficit has remained contained at about 5½ percent of GDP, after a sharp narrowing by 3 percentage points of GDP in 2015. The positive dynamics in the balance of payments led to an increase in reserves to above 5 months of prospective imports. The overall fiscal deficit narrowed from 8 percent of GDP in 2015 to close to 7 percent in 2016. Kenya is supported by a two-year Stand-By Arrangement and a two-year arrangement under the Stand-By

Credit Facility, which the authorities are treating as precautionary. It is an IDA recipient with a low risk of debt distress.

**Assessment:**

*Staff proposes maintaining Kenya PRGT eligibility given the presence of serious short-term vulnerabilities.*

**Income Criterion.** Kenya does not meet the income criterion for graduation. In 2015, Kenya's GNI per capita was US$1,340, 43 percent below the relevant income graduation threshold.

**Market Access Criterion.** Kenya meets the graduation criterion. It accessed international markets in all of the last five years in a cumulative amount of 642 percent of its IMF quota.

**Serious Short-Term Vulnerabilities.** Kenya faces several significant downside risks to growth: if the current drought continues, it will hurt growth while fueling food price inflation; bank credit has slowed from 18 percent in 2015 to 4 percent in 2016, as interest rate caps have reduced bank profitability – putting downward pressure on private investment; if second round effects from the spike in inflation materialize, this could require a monetary tightening, with negative growth implications; the programmed fiscal consolidation in excess of 3 percent of GDP over the coming 3 years could dampen growth; and the national elections in August 2017 pose risks to economic policy implementation. Other downside risks include a potential increase in the volatility of global capital flows and security threats. These risks, if materialized, could restrict the country's ability to borrow from international markets. As Kenya's GNI per capita is currently only 13 percent above the relevant income entry threshold, negative shocks could lead to a decline below the threshold. Kenya has experienced episodes of significant GNI per capita volatility in the past. In view of these developments, staff do not recommend graduation from PRGT eligibility at this time.

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