



December 2014

REFORM OF THE POLICY ON PUBLIC DEBT LIMITS IN FUND-SUPPORTED PROGRAMS—PROPOSED DECISION AND NEW PROPOSED GUIDELINES

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

- A **Staff Supplement** on Reform of the Policy on Public Debt Limits in Fund-Supported Programs—Proposed Decision and Proposed New Guidelines.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Electronic copies of IMF Policy Papers
are available to the public from
<http://www.imf.org/external/pp/ppindex.aspx>

International Monetary Fund
Washington, D.C.

Reform of the Policy on Public Debt Limits in Fund-Supported Programs—Proposed Decision and Proposed New Guidelines

This supplement refers to the reforms proposed in [“Reform of the Policy on Public Debt Limits in Fund-Supported Programs”](#) to the existing framework governing external debt limits in Fund arrangements, and presents the proposed decision that is needed to implement these reforms. The proposed new guidelines are included in the Attachment to the decision, while Annexes I and II set forth for the convenience of Executive Directors include redlined texts that show revisions against the current guidelines and to the Policy Support Instrument decision, respectively.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. The “Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements” set forth in Decision No. 6230–(79/140) of August 3, 1979, as amended, is replaced by the “Guidelines on Public Debt Conditionality in Fund Arrangements” as set forth in the Attachment to this decision. Any existing reference in Fund policies to the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements shall be read as a reference to the Guidelines on Public Debt Conditionality in Fund Arrangements.
2. Paragraph 18 of the Policy Support Instrument Framework decision, Decision No. 13561–(05/85), adopted October 5, 2005, as amended, shall be amended by removing the reference to “and” immediately preceding “(c)” and by adding at the end of the current text the following: “and (d) Guidelines on Public Debt Conditionality in Fund Arrangements”.
3. This decision shall become effective on June 30, 2015. Any performance criterion or indicative target on external debt that is in place when this decision becomes effective shall continue to apply in accordance with its terms unless and until such performance criterion or indicative target is amended consistent with the Guidelines on Public Debt Conditionality in Fund Arrangements.
4. It is expected that the Fund will review the implementation of the Guidelines on Public Debt Conditionality in Fund Arrangements no later than June 30, 2018.

Attachment

Guidelines on Public Debt Conditionality in Fund Arrangements

1. Public debt conditionality in the form of a performance criterion or an indicative target establishing a limit on public and publicly guaranteed debt, or some sub-component of this aggregate, will normally be included in Fund arrangements in the General Resources Account (GRA) or under the Poverty Reduction and Growth Trust (PRGT) when a member faces significant debt vulnerabilities.
2. The use of public debt conditionality may also be warranted in situations where the quality and coverage of the fiscal statistics produced by the national system of fiscal accounting and budgeting of the member favor the use of public debt conditionality in place of, or as a complement to, “above-the line” fiscal conditionality.
3. Public debt conditionality will be established as a limit on “total” public and publicly guaranteed debt unless country circumstances and program objectives justify the use of more narrowly targeted conditionality:
 - a) For countries where there is significant segmentation between domestic and external sources of public financing, debt conditionality will normally be established as separate limits on external and domestic public and publicly guaranteed debt.
 - b) For countries where debt vulnerabilities are specific in nature, rather than linked to aggregate debt levels, public debt conditionality should, to the extent possible, be targeted on the specific areas of vulnerability, with limits covering the relevant sub-categories of debt.
 - c) The specific design and coverage of public debt conditionality should take into account the quality and timeliness of the financial information produced by the member country’s public sector accounting system.
4. The appropriate definition of the public sector for the purposes of specifying public debt conditionality will depend on institutional arrangements in the member country; it will normally include all nonfinancial public enterprises and other public entities, unless explicit exclusions have been made. Explicit exclusions could include specific public enterprises or other official sector entities that are assessed to be in a position to borrow without a guarantee of the government and whose operations pose limited fiscal risk to the government. The specification of what constitutes “public sector” for the purposes of public debt conditionality in a Fund arrangement will be explained clearly in the program documents.
5. For the purposes of specifying public debt conditionality, the concept of “external” debt may be defined on the basis of the residency of the creditor or the currency of denomination of

the debt. The public debt conditionality will specify which of these two criteria is being used for purposes of the definition of external debt.

6. The performance criteria or indicative targets establishing debt limits may be formulated in terms of a) debts contracted or authorized; b) disbursements made; or c) changes in the stock of public and publicly guaranteed debt. The specific approach chosen will depend on program objectives, the predictability of loan disbursements, and the quality and timeliness of data availability.

7. In accordance with these guidelines, the following considerations will apply when establishing public debt conditionality in Fund arrangements:

a. These guidelines will be applied with a reasonable degree of flexibility while safeguarding the principle of uniformity of treatment among members. These guidelines should be interpreted in the light of the Guidelines on Conditionality.

b. The appropriate level and composition of debt for purposes of public debt conditionality will be based on an evaluation of the member's proposed fiscal program, including the associated borrowing plan, and on the member's debt vulnerabilities, as identified through a debt sustainability analysis.

c. For purposes of these guidelines, the quality and coverage of the fiscal statistics produced by a member's national system of fiscal accounting and budgeting will normally warrant the use of public debt conditionality instead of, or as a complement to, "above-the-line" fiscal conditionality when at least one of the following conditions is met:

i. The national system of fiscal accounting and data compilation is such that the quality and timeliness of fiscal financing data is significantly better than the data on "above-the-line" measures (such as the fiscal balance); or

ii. Important public debt-creating activities are not adequately captured in the fiscal accounts (e.g., bank recapitalization, issuances of government guarantees, noncommercial state-owned enterprises, and other agencies outside the budgetary framework) and these activities pose a threat to the overall fiscal position.

d. The performance criterion or indicative target establishing a debt limit would normally be set on the nominal value of debt, except in cases under paragraph 7(e) below.

e. For members that normally rely on official external financing on concessional terms, public debt conditionality will generally be established as follows:

(i) Except as provided in subparagraphs (iv) and (v) below, for members assessed as facing a high risk of debt distress or in debt distress, public debt conditionality will take the form of (a) a performance criterion specifying a ceiling on the nominal amount of non-concessional external debt accumulation and (b) a performance criterion or indicative

target setting a ceiling on the accumulation of concessional external debt. The accumulation of non-concessional debt would be allowed under the conditionality only under exceptional circumstances.

(ii) Except as provided in subparagraphs (iv) and (v) below, for members assessed as facing a moderate risk of debt distress, public debt conditionality will take the form of a performance criterion setting a ceiling specified in present value (PV) terms on the accumulation of public and publicly guaranteed external debt, without distinctions between concessional and non-concessional debt.

(iii) For members assessed as facing a low risk of debt distress, conditionality on debt accumulation would not be warranted, except where justified on the basis of the criteria specified in 7(c) above.

(iv) Where the member's capacity to monitor the contracting of debt is weak, public debt conditionality will consist of a performance criterion, specified in nominal terms, on the accumulation of non-concessional external debt, supplemented by a memorandum item, specified in nominal terms, on the accumulation of concessional external debt.

(v) For members with an open capital account and significant financial integration with international markets, public debt conditionality may be set on total public debt accumulation rather than on the accumulation of external debt.

f. In principle, a performance criterion or an indicative target establishing a debt limit will incorporate by reference the definition of debt set forth in paragraph 8 below. Financial instruments that are not covered under the definition, but have the potential to create substantial external liabilities for governments, will be included in the debt limit where appropriate, in which case they would be explicitly specified in the program documents.

8. (a) The performance criterion or indicative target will include all forms of debt. For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- (b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
9. These Guidelines on Public Debt Conditionality in Fund Arrangements shall apply by analogy to programs supported under the Policy Support Instrument Framework Decision No. 13561–(05/85), adopted October 5, 2005, as amended.