INTERNATIONAL MONETARY FUND

# Guidance Note on Post-Program Monitoring

February 3, 2017

## EXECUTIVE SUMMARY


**This note provides operational guidance to staff on the implementation of post-program monitoring (PPM).** It is based on the policy paper Strengthening the Framework for Post-Program Monitoring and the related Board discussion and summing-up, and supersedes the guidance note issued in March 2010.

**PPM is an important part of the Fund's safeguards architecture focusing on members with significant outstanding Fund credit or heightened vulnerabilities that are no longer in a program relationship with the Fund.** The goal is to identify risks to such members' medium-term viability, provide early warnings on risks to the Fund's balance sheets, and deliver advice that will assist such members to repay the Fund. The focus is on macroeconomic, financial and structural policies based on a concept—the member's capacity to repay—that are essential for safeguarding the Fund's resources. Staff report to the Board on the member's policies, the consistency of the macroframework with the member's viability, and the implications for the member's capacity to repay, including in risk scenarios.

**PPM discussions and staff reports should be forward looking, risk based and focused—complementing Article IV surveillance.** PPM reports should contain a rigorous risk assessment, and explore in depth how capacity to repay could be affected if identified risks materialized. To ensure that PPM staff reports present a balanced picture, staff should provide adequate context for the risk discussion, but without including the breadth of material that would normally be found in Article IV staff reports.

**This note covers key analytical and operational issues arising in the implementation of PPM, including the following questions:**

- What are the goals and scope of PPM?
- What is the relationship between PPM and Article IV surveillance?
- How should staff analyze risks in the context of PPM?
- What analytical tools can support PPM?
- Under what circumstances should PPM be initiated, extended or terminated?
- What are the minimum requirements for PPM staff reports?
- What are the publication procedures for PPM reports?

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# CONTEXT

**1. This note provides operational guidance to staff on the conduct of Post-Program Monitoring (PPM).** PPM is an important part of the Fund's safeguards architecture, focusing on members that are no longer in a program relationship with the Fund and which might pose risks to the Fund's balance sheets either because of the magnitude of credit outstanding, or the scale of risks facing the member. The goal of PPM is to identify risks to such members' medium-term viability, provide an early warning on risks to the Fund's balance sheets[1], and deliver policy advice that will assist the members to repay the Fund.

**2. PPM discussions and staff reports should be forward looking, risk based, tailored to country circumstances and focused.** The focus is on macroeconomic, financial and structural policies based on a concept—capacity to repay—that is essential for safeguards. A member subject to PPM will be expected to discuss with staff its policies, including a quantified macroeconomic framework and the reasons for changes in the economic outlook. Staff will then report to the Board on the member's policies, the consistency of the macroeconomic framework with medium-term viability, and the implications for the member's capacity to repay including in risk scenarios. Although PPM aims to safeguard Fund resources, its effectiveness depends on the traction of Fund policy advice, and the key principles for Article IV surveillance[2] are relevant, in particular the importance of tailoring analysis and advice to country circumstances.[3]

**3. PPM discussions and staff reports complement Article IV surveillance.** The Fund's policy advice should be consistent across the two modes of engagement, while evolving with conjunctural and policy developments, and as new analysis becomes available. PPM reports should contain a rigorous risk assessment, exploring in depth how capacity to repay could be affected if identified risks materialized. This will enrich the analysis and policy advice in PPM, and inform the subsequent Article IV. To ensure that the messages in PPM staff reports are balanced and not unduly alarmist, staff should provide adequate context for the discussion of risks, drawing as needed on previous staff reports, but without including the breadth of material that would normally be found in an Article IV.[4]

**4. This note is organized as follows.** It starts with a discussion of the scope of PPM and operational guidance on analytical areas and tools that could inform PPM discussions. This is followed with operational guidance on the steps staff should take in initiating, extending and terminating PPM, as well as other operational processes including timing and communication issues.

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[1] This refers to both the IMF's General Resources Account (GRA) or Poverty Reduction and Growth Trust (PRGT).

[2] The terms Article IV and Article IV Consultation are used interchangeably throughout this note.

[3] See Box 1 of Guidance Note for Surveillance under Article IV Consultation. An additional consideration for PPM is the need for close collaboration with the authorities on data provision.

[4] Appendix 1 lists the minimum requirements for PPM staff reports.

# THE SCOPE OF PPM

**5. Capacity to repay is the anchoring concept for PPM**. It refers to the member's capacity to make timely repurchases/repayments of outstanding Fund credit.[5] In analyzing capacity to repay, staff should abstract away from the Fund's preferred creditor status[6] or contingent backstops from other creditors, and consider whether the member will likely be able to repay the Fund in staff's baseline and plausible risk scenarios—without the need for a successor arrangement or undertaking policy actions that would create undue economic hardship.

**6. The time horizon for staff analysis and choice of analytical tools and indicators should be tailored to country circumstances.** While PPM focuses on a member's medium-term viability, there may be merit in some cases in engaging with the authorities on near-term trends in reserves and other key variables. In other cases—for instance, where fiscal solvency is a potential concern—there might be more of a focus on the scope for structural policies to strengthen growth, or on contingent liabilities from the financial sector. Most teams will draw heavily on assessments of reserve adequacy and debt sustainability analysis (DSAs), but there is considerable scope for teams to innovate including through tailored scenario analysis and tools developed for the Fund's internal vulnerability exercises.[7] The interpretation of results from tools requires careful judgement and communication, based on country circumstances.

**7. PPM staff reports need to analyze capacity to repay both in a realistic baseline and in the event that risks are realized:**

- ***Baseline***. PPM staff reports should discuss the baseline both in the near- and medium-term.[8] Whereas Article IVs often focus on the impact of policies on the path of output, PPM reports should examine thoroughly projections for key indicators of capacity to repay—such as reserve adequacy and fiscal financing needs—to determine how existing vulnerabilities will likely build up over time absent policy action.

- ***Risks analysis.*** PPM staff reports should identify the main external and domestic risks to the country's capacity to repay relative to the baseline. To identify risks, staff will draw on the most

[5] One purpose of assessing capacity to repay is to help prevent new cases of arrears by identifying potential problems at an early stage so that necessary actions can be taken to limit risks to the Fund. As such, it helps preserve the revolving nature of the Fund's financial assistance while ensuring that a member can realistically discharge its repayment obligations without undue strain.

[6] The Fund's *de facto* preferred creditor status is discussed in Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options.

[7] In LICs with underdeveloped and largely closed capital markets deeper analysis of determinants of concessional financing could be key.

[8] As needed, the staff report would clarify key underlying assumptions including, for members of currency unions, any assumptions of support from other members of the union or union-level institutions.

recent Article IV or program review, updated as needed,[9] and, as is the case for Article IVs, can include tail risks as well as those close to the baseline.[10] The risk assessment should assess the probability of risks materializing, keeping in mind that risks could be correlated, and provide a comprehensive assessment of their likely impact, drawing on a thorough analysis of the transmission channels.

8. **There is a presumption that PPM staff reports will explore the risks to capacity to repay in depth by quantifying the impact of shocks.** Given varying country circumstances and data availability, staff have a large degree of flexibility how to achieve that objective. The preferred approach is to develop one or more well-articulated downside risk scenarios that quantify potential financing needs. As an alternative, staff could analyze the key findings of an updated DSA, or present the findings of their own analytical tools such as fan charts assessing the impact of shocks on key indicators of capacity to repay. However, the staff would generally not prepare quantified alternative scenarios to assess tail risks, or in weak data environments.

9. **A standard approach for developing downside risk scenarios involves staff projecting individual items of the balance of payments under an adverse scenario**, including the current account, FDI flows, short and medium-term debt rollover, deposit outflows, official financing, other portfolio flows and assess the evolution of reserves vis-à-vis their adequate level.[11] Staff could also draw on scenarios prepared in the context of the Fund's global risk assessment matrix (G-RAM). If such exercises identify financing gaps that could not be met by additional borrowing or grants, staff should conclude that risks to the member's capacity to repay have increased and appropriate policy adjustment should be proposed.

10. **Staff's assessment of the risks to capacity to repay should motivate policy discussions in the context of PPM.** While there is likely to be a high degree of continuity in the Fund's policy advice from the previous Article IV, PPM staff reports should focus more on possible measures to lower the likelihood of risks materializing and how to respond if risks materialize. For members of currency unions, policy discussions can also cover commitments from other members of the union and union-level institutions. The traction of policy advice hinges on a number of factors, including the institutional quality of the country, its track record with ownership of policy measures, but also on formulating advice that is specific and tailored to country circumstances. PPM could have informal targets, set in close collaboration with the authorities.[12] To ensure PPM reports remain

[9] The WEO and G-RAM provide useful reference for quantitative estimates of global economic and financial shocks, which could inform the effects on the country's export demand, terms of trade and remittances. The GFSR should be the main source for key global and regional assumptions on financing conditions, including surveys of market analysts' expectations under the adverse scenario.

[10] If tail risks are relevant, staff would generally not analyze them through quantified scenarios as laid out in paragraphs 8-10. Instead, the focus would be exploring in detail the channels through which these could impair capacity to repay.

[11] See staff guidance notes on the flexible credit line and precautionary and liquidity line .

[12] Such targets are most likely to be set when vulnerabilities are high and particularly acute in the near term, and the authorities consider that it would help the implementation of their policy plans. As PPM is a form of monitoring and not the continuation of a program, such targets would not constitute a form of conditionality.

focused, they will generally not report on the authorities' progress towards meeting policy commitments under the previous program except when relevant for capacity to repay.

# ANALYTICAL FRAMEWORK, TOOLS AND GOOD PRACTICE EXAMPLES

**11. Analytical tools can strengthen the underpinnings of PPM discussions.** Staff should lay out clearly the channels through which risks pose threats to the member's capacity to repay—quantifying such risks as laid out in ¶8-10. This section lays out the types of analysis, illustrated by good practices, that might inform staff's analysis of capacity to repay in PPM staff reports. While it is organized by sector—external, fiscal and financial—the links across sectors are often powerful, and staff should apply judgement in interpreting tools.

## A. External Sector Shocks and Risks

**12. An in-depth analysis of external sector risks, centering on reserve adequacy, is essential for most members subject to PPM.**[13] Even when Fund financing has taken the form of direct budget support, the member's ability to repay the Fund hinges on whether it will have adequate foreign exchange to make repurchases/repayments. Staff should assess the adequacy of reserves based on their preferred analytical tools, which could be the Fund's reserve adequacy metric (ARA), which is a simple guide of the strength of a country's reserves position relative to particular risk factors, alternative metrics or scenario analysis.

**13. The assessment of reserve adequacy should be forward looking.** Staff should develop medium-term projections that take into account expected drains on reserves, and discuss the usability of reserves with the authorities. If reserves are below the metrics, staff should develop and monitor high-frequency projections that take into account near-term drains to reserves, and potential buffers such as contingent financing. Conversely, if reserves are comfortably above adequacy levels over the medium term, staff could explore adverse scenarios in which the use of reserves covers part of any identified financing gap.

**14. An alternative approach to reserve adequacy is warranted for members belonging to currency unions, depending on whether the union itself is a reserve currency issuer.** Reserve currency issuers are unlikely to need sizable reserves for precautionary purposes, to the extent that the union-level central bank can create assets that can be swapped into any other currency at any time. As such, for individual members of such unions, reserve adequacy will generally not be a factor in the assessment of capacity to repay, and much of the focus in PPM will be on fiscal and financial-sector issues (see ¶17). For members of currency unions that are not reserve currency issuers, in addition to other factors influencing capacity to repay, PPM should assess reserve adequacy taking

[13] This section draws on the Guidance Note on the Assessment of Reserve Adequacy and Related Considerations .

into account factors, such as financial architecture of the currency union and the synchronization of shocks, that may limit the scope for reserve pooling.[14]

**15. A sudden stop is a key external risk for economies with open capital accounts.** Where relevant, staff should assess the risk and likely impact of a sudden stop on the member, tracing out the key transmission channels, including feedback effects. This could include exploring the impact of exchange rate movements on public and private sector balance sheets, the consequences if maturing debts are not rolled over, and/or other potential sources of risk to capacity to repay from systemic risks associated with large and volatile capital flows.

**16. PPM should also explore the potential for current account shocks to have a material effect on capacity to repay.** This could arise, for instance, from exogenous shocks—such as foreign demand, terms of trade shocks or remittances—as well as changes in domestic policy settings. In such cases, specific consideration should be given to export/import composition and elasticities, exchange rate pass-through, the current account norm and debt-stabilizing level using the EBA and EBA-lite tools.

### Box 1. Examples of Quantitative Risk and Spillover Assessment in PPM Reports

Among PPM reports prepared in 2014-15, the combined Article IV and first PPM report for Moldova (http://www.imf.org/external/pubs/ft/scr/2014/cr14190.pdf) and the third PPM report for Sri Lanka (http://www.imf.org/external/pubs/ft/scr/2015/cr15335.pdf) contain deeper quantitative analyses of risks.

The Moldova report analyzes spillover risks from trade, remittances and financial linkages with trading partners. The effect of shocks to the growth rate of trading partners on Moldova's GDP, exports, the real exchange rate and personal transfers are quantified using impulse response functions of structural VARs. This is complemented by an application of the vulnerability exercise for low-income countries (VELIC)[1] as a tool for identifying emerging risks and vulnerabilities in LICs. The analysis motivates advice to strengthen external and fiscal buffers and greater trade diversification.

The Sri Lanka report analyzes an adverse balance of payment scenario. In line with the risks identified by staff, the scenario models the effect of a decrease in capital inflows of a magnitude witnessed during past crises under minimal policy adjustment. It shows that a shock of this type could significantly reduce international reserves.

[1] Vulnerability Exercise for Low-Income Countries (see https://www.imf.org/external/np/pp/eng/2011/030911.pdf)

[14] See Assessing Reserve Adequacy: Specific Proposals, 2015 (¶49-51), and Guidance Note on Reserve Adequacy, 2016 (¶11-12).

## B. Fiscal Risks and Shocks

**17. PPM staff reports should normally also analyze the risks to fiscal financing and solvency.** In some cases—notably members of currency unions that are reserve currency issuers, and to which Fund financing has taken the form of budget support—the central analytical question for PPM is the sovereign's ability to issue securities or raise other forms of financing to meet repurchases/repayments to the Fund. Fiscal developments will also affect the member's capacity to repay in other cases because of their impact on reserves via the current account and the sovereign risk premium.[15]

**18. A key short-term question is the sovereign's ability to refinance its maturing liabilities to the Fund and other creditors in private markets.** For countries with market access, staff can usefully update and discuss the DSA, and integrate its analysis of gross financing needs and debt structure indicators into the staff report (see Box 2). Staff should also discuss the authorities' fiscal financing plans under the baseline, and assess the extent of buffers such as the treasury's cash balance or standby lines at commercial banks. The staff report should also analyze the member's gross fiscal financing needs in shock scenarios—analyzing for instance the impact of growth and interest rate shocks on financing needs, and seeking to understand how shocks would affect the viability of the treasury's financing plans and buffers.[16]

**19. Fiscal solvency issues should be explored when debt is elevated.** The key question for most members is whether debt burden indicators, in particular the level and trajectory of the debt-to-GDP ratio, would remain at or below levels consistent with an acceptably low real interest rate on debt, and with preserving growth at a satisfactory level over the medium term, taking into account cyclical considerations, not only under the baseline but also under risk scenarios. This can be supported by discussions of the fiscal adjustment required to support the projected debt trajectory.[17] Interactions between monetary and fiscal policy may also affect debt repayment capacity;[18] and certain cases may warrant attention to unexpected fiscal implications of interactions between nominal and real variables.[19]

[15] See the Staff Guidance Note on the Use of Fund Resources for Budget Support for the analytics of different modes of Fund lending.

[16] For market access countries, staff could discuss the results of stress tests in the DSA, or develop customized tools such as fan charts.

[17] Staff can draw on standardized results in the Fiscal Monitor and in the fiscal adjustment module of the VE.

[18] A monetary policy framework or conduct which raises inflation uncertainty, leads to higher term premia and long-term yields, increasing the debt servicing costs of newly issued long-term debt (an incentive for shortening the maturity composition of the debt portfolio, which raises rollover risks), and discouraging growth by raising the cost of capital.

[19] For example, inflation differentials driving real exchange rate (and ergo, external competitiveness) changes, which affect the growth outlook, and translate to revised perceptions of the present value of fiscal revenues, and hence of debt sustainability. See, for example, the analysis of Spanish sovereign risk in Leeper (2015).

**Box 2. Analyzing Fiscal Risks in Portugal**

The 2016 PPM report on Portugal provides an illustration of an in-depth analysis of fiscal developments and risks, including those arising from the financial sector. It gives a careful and concrete assessment of persistent sovereign-bank linkages, with an articulation of the role of these linkages as important transmission channels for identified risks. The report also illustrates the usefulness of applying the Public DSA framework for Market-Access Countries, to generate risk-based assessments of debt sustainability. It is used to analyze the sensitivity of debt and financing needs projections to changes in key assumptions, including to customized contingent liabilities shocks; for an assessment of changes in the public debt profile; and to quickly visualize the main risks through heat maps and fan charts. These illustrate the vulnerability of the debt trajectory to moderate adverse shocks. Taken together, the customized analysis and set of DSA outputs rationalize staff's flagging of (manageable but) rising risks to Portugal's capacity to repay.

http://www.imf.org/external/pubs/cat/longres.aspx?sk=43841.0

## C. Financial Sector and Contingent Risks

**20. Assessing macrofinancial linkages can support risk analysis and shed light on potential contingent liabilities.** A large number of tools are available that can help staff assess systemic risks. In countries with highly integrated financial markets, the vulnerabilities of the financial sector (liquidity as well as solvency) to sudden stops of capital inflows can be assessed via stress tests. Balance sheet analysis can reveal risks to the financial sector either directly (such as potential valuation losses on securities triggered by exchange rate fluctuations) or indirectly through risks to private-sector balance sheets, such as through real estate lending.[20]

**21. Feedback loops between the banking sector and the sovereign can have a significant impact on capacity to repay.** Increases in sovereign risk raise banks' funding costs, directly and through the effect on banks' credit ratings; and reduce the value of their sovereign holdings, affecting the value of collateral used to obtain wholesale funding. Banking sector distress, in turn, can raise sovereign risk: indirectly, through the fiscal effect of lower output due to difficult conditions in the banking sector; and directly when the state has to intervene in order to contain the risk of financial system failure due to banking sector distress, with negative implications for the sovereign's own solvency. In such cases, staff should assess the extent of contingent liabilities from the banking sector,[21] and explore whether bank resolution frameworks can help limit the sovereign's exposure to banking sector distress.[22]

[20] Staff can draw on tools in the vulnerability exercise to analyze the level of real estate prices.

[21] As a rough indication, the average fiscal cost of banking crises is estimated at 12 percent of financial sector assets (21 percent in Emerging Economies); and can exceed 40 percent of GDP—e.g., during past crises in Argentina, Chile, Iceland, Indonesia, Ireland, Jamaica, Thailand. (See Laeven and Valencia (2012).

[22] See, e.g., Correa and Sapriza (2014), Farhi and Tirole (2015), Brunnermeier, Garicano, Lane, Pagano, Reis, Santos, Thesmar, Van Nieuwerburgh, and Vayanos (2016).

## D. Governance and Stability

**22. Assessments of capacity to repay should take into account the authorities' capacity to carry out policy adjustments, and their track record at servicing debts to the Fund and other creditors.** In some countries, including those with recent history of political instability or governance challenges, assessments of governance, policy capacity, political risk, and civil conflict may be of particular importance as drivers of either inability or unwillingness to repay.[23] The authorities' track record at implementing reforms during previous Fund-supported programs could be informative in this regard. Poor repayment history and weak policy frameworks are associated with higher probability of future default, and indicative thresholds (fiscal, debt, and reserves) should reflect this (e.g., a suitably lower level of sustainable debt).[24] In some cases, *willingness* to repay is likely to be as important as capacity to repay, requiring some assessment of the costs versus benefits of continued and uninterrupted repayments, from the sovereign's viewpoint.

# OPERATIONAL STEPS FOR ACTIVATING, EXTENDING AND TERMINATING PPM

**23. The Executive Board decides whether PPM should be initiated or extended for a particular member based on a staff paper and recommendation by the Managing Director.** The staff paper recommending PPM should include a candid and concise assessment of the member's circumstances and capacity to repay the Fund, and a draft decision for Board approval.[25] The Board decision establishes an *expectation* that the member will engage in PPM.

**24. A decision to initiate PPM is normally taken at the same time as the completion of the final program review, but can also be brought to the Board later, on a standalone basis.[26]** Timely decisions on initiating PPM will help ensure continuity of advice and Board engagement. The decision might be taken later because: (i) a successor arrangement was expected at the end of the program, but discussions were ultimately unsuccessful (see ¶30-31); (ii) the arrangement is cancelled by the authorities or expires without all reviews being completed, including because the authorities' program has gone off track; (iii) outstanding credit is below the applicable PPM thresholds at the end of the program, but rises above them due to an outright purchase or disbursement; or (iv) outstanding credit is below the applicable PPM thresholds at the end of the program and remains so, but risks rise sufficiently for PPM to be warranted (see ¶26).

[23] Quantitative indicators—when these serve as a helpful complement to forward-looking staff analysis—can be drawn from the Policy Capacity and Political Risk toolkit in the Vulnerability Exercise.

[24] Reinhart, Rogoff, and Savastano (2003), Aguiar and Amador (2013), Oeking and Sumlinski (2016).

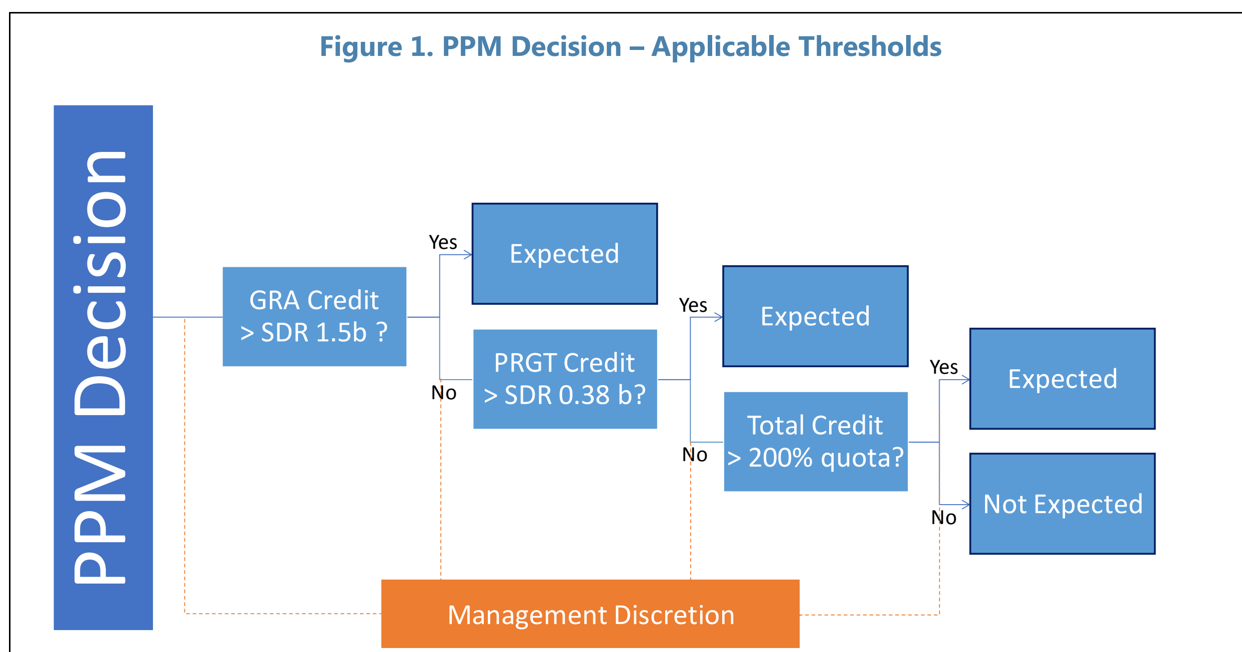
[25] This guidance note distinguishes between staff papers recommending the initiation or extension of PPM (which are not normally published) and staff reports covering discussions with the authorities on the content of PPM (referred to elsewhere in this note as PPM staff reports, and which are presumed to be published).

[26] Standalone proposals for initiating PPM are normally presented to the Board for lapse of time approval.

**25. The Managing Director's recommendation to initiate, extend or terminate PPM should be motivated by the level of outstanding credit and the member's circumstances, in particular its capacity to repay.**[27] As a first step, staff should determine whether PPM would be expected based on the absolute size of credit outstanding or the level of the credit relative to the member's quota (see ¶26). The Managing Director can recommend to the Board that PPM be initiated or extended for a member even if Fund credit is below the applicable thresholds, and can also recommend that it be terminated early even if credit remains above the threshold, depending on an assessment of risks posed. Management discretion should be exercised based on a staff proposal, drawing on systematic analysis of risks to a member's capacity to repay, and taking into account other factors such as the likelihood of a successor arrangement (see ¶30-31).

**26. PPM is expected for members with large absolute amounts of credit outstanding or outstanding credit above 200 percent of quota.**[28] To ensure that the largest exposure risks to the balance sheets of the GRA or PRGT are monitored, PPM is expected when any one of three conditions are fulfilled: (i) credit outstanding to the GRA exceeds SDR 1.5 billion, or (ii) credit outstanding to the PRGT exceeds SDR 0.38 billion, or (iii) the member's total credit outstanding (to the GRA and/or PRGT) exceeds 200 percent of its quota (see Figure 1).

**Figure 1. PPM Decision – Applicable Thresholds**




[27] Under the PPM Decision, Management may not recommend the initiation of PPM unless a member has credit outstanding. PPM is also not used as a generalized instrument for high-frequency engagement unless the member poses risks to the Fund's balance sheets, as to do so would be inconsistent with the legal framework.

[28] The absolute-size thresholds were calibrated relative to the Fund's loss-absorption capacity, and were set at the equivalent of 10 percent of the minimum floor of precautionary balances for credit outstanding from the General Resources Account (GRA), and 10 percent of the reserve balance for credit outstanding from the Poverty Reduction and Growth Trust (PRGT). See Strengthening the Framework for Post Program Monitoring ).

***Circumstances in which PPM might be initiated or extended when a member's outstanding credit from the Fund is or has fallen below the applicable thresholds***

**27. The Managing Director can recommend initiating or extending PPM when a member's outstanding credit is or has fallen below the applicable thresholds.**[29] To assess in such cases whether PPM is warranted, staff should analyze the country's vulnerability to shocks, the authorities' capacity to put in place policies to respond as needed, and risks that might arise from planned policies.[30] PPM might be warranted, for example, if the external and/or fiscal positions are weak, manifested for instance by a risk of sizable financing gaps, or high levels of external indebtedness—in particular to bilateral donors and other official creditors. It is particularly important for staff to make such an assessment of the case for PPM when outstanding credit is below, but close to, the thresholds outlined above.

***Circumstances in which PPM might not be initiated even though a member's outstanding credit is above the applicable thresholds***

**28. Conversely, PPM might not be warranted when a country has strong economic fundamentals and sound policy frameworks such that it does not pose material risk to the Fund's balance sheets.** This could apply to members whose circumstances (in particular, the strength of its policies and its external position) have sufficiently improved that its capacity to repay is assured both in the baseline and plausible shock scenarios. A strong track record history of implementing reforms and responding effectively to shocks would support such an assessment.

**29. Members with arrears to the Fund would also not be subject to PPM.** The Fund's engagement with such members is governed by the IMF's policy on overdue financial obligations to the Fund.[31]

***Procedures if a successor arrangement, PSI or SMP is expected***

**30. PPM might also not be warranted if a successor arrangement, Policy Support Instrument (PSI) or staff monitored program is expected within six months of the end of a Fund arrangement.**[32] Program negotiations entail intensive engagement between the authorities and staff, with informal reporting to the Board if exceptional access is expected. Moreover, if a new program is expected soon, the Board will take comfort that there will likely soon be close monitoring as well as policy measures that will ultimately help the authorities adjust smoothly, thus protecting the Fund's balance sheets. The policy therefore gives the Managing Director discretion not to initiate PPM in such circumstances. However, staff should not automatically assume that PPM will be

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[29] In such cases, the Managing Director would normally recommend that PPM continue for a period of one year, after which PPM would automatically expire unless extended.

[30] This approach would enable management to take a position on whether there are developments suggesting the need for closer monitoring of capacity to repay, and particularly developments calling into question the member's progress towards external viability (PPM decision, ¶2).

[31] See Review of the Fund's Strategy on Overdue Financial Obligations.

[32] A program could be expected if either the authorities have made a formal request, or they have indicated to staff that they intend to do so.

delayed, and should take all circumstances into account, including the likelihood of a program being agreed, in advising Management on whether to propose PPM.

**31. If PPM is not initiated at the end of a Fund arrangement, staff should reconsider the case for PPM periodically, and at least at six month intervals.** If program negotiations are still underway six months after the end of the previous arrangement, and the Managing Director continues to view PPM as unwarranted, staff should provide an informal briefing to Directors on economic developments and vulnerabilities. In deciding whether PPM remains unwarranted, the Managing Director will take into account the likelihood of a program being agreed quickly, and the period that has elapsed since the member's last arrangement expired: the longer the time that has elapsed, the greater the presumption that the Managing Director would propose the initiation of PPM.[33]

**32. Any decision to initiate PPM in parallel with program negotiations should be communicated carefully.** In explaining such a move both to the authorities and in public, the Fund should draw a distinction between the role of PPM as an instrument to safeguard Fund resources, and ongoing program negotiations.

***Termination***

**33. PPM is terminated if either outstanding credit falls below all applicable thresholds, a new program is approved, or the Board accepts a proposal from management for early termination.** PPM terminates automatically when a new Fund-supported program is approved or the member repays all its credit outstanding from the Fund.[34] It also terminates when credit falls below all applicable thresholds unless there is a Board decision recommending that PPM be extended (see ¶26). The Managing Director can also propose to the Board that PPM be terminated early if it is no longer warranted, for instance because the member's circumstances (in particular, the strength of its policies and its external position) have sufficiently improved that its capacity to repay is assured both in the baseline and plausible shock scenarios.

# OTHER OPERATIONAL ISSUES

**34. PPM is conducted annually, with a Board discussion of the first PPM staff report expected within six months of the initiation of PPM unless an Article IV is scheduled to take place earlier.** It is generally desirable for the Fund's first formal interaction with the authorities after the end of a program to be through an Article IV, given its more comprehensive coverage. If,

[33] The PPM policy does not establish any formal deadlines for the initiation of PPM. As a reference point, for countries with outstanding credit in excess of the applicable PPM thresholds, the longest time period in recent years between the end of the arrangement and either the start of a new arrangement or the initiation of PPM has been less than 18 months.

[34] PPM would not generally be terminated if the member requests a new arrangement—only if a new arrangement is approved.

however, the Article IV is not expected for more than six months after the end of the program, then the PPM discussions should be scheduled first. Staff should endeavor to sequence subsequent PPM missions roughly mid-way between annual Article IV consultations, so that two staff reports are presented to the Board every 12-months; the Fund no longer conducts joint PPM/Article IV missions. PPM discussions can be completed on a lapse of time (LOT) basis "*if no major issues have arisen*",[35] while LOT is not appropriate if risks are high or rising significantly, or the previous Article IV was completed on an LOT basis.

**35. Conducting PPM missions in collaboration with multilateral institutions that supported the member's program can help promote the goals of the policy.** The participation of other institutions with complementary expertise can enrich technical discussions and enhance the traction of policy advice. PPM missions should be organized in such a way that Fund staff can conduct focused and candid discussions with the authorities, and consistent with the policy, form an independent view on the key challenges and policy adjustments.

**36. The Fund encourages timely publication of PPM staff reports and press releases.[36]** Publication is voluntary but presumed, in accordance with the Transparency Policy,[37] and can contribute to traction. PPM reports will normally be published no later than 14 calendar days after the Board meeting or adoption of a LOT decision, or 28 days after the document has been issued to the Board, whichever is later. The authoring department is responsible for ensuring that press releases are issued as soon as possible after Board consideration (or adoption of an LOT decision), provided the authorities have consented to publication.[38] If the report and/or the related press release have not been published within 28 days of the Board, the authoring department will prepare a factual statement for posting on the IMF's external website stating that Board consideration has taken place, and clarifying the authorities' publication intentions.

**37. However, standalone staff papers containing recommendations to initiate or extend PPM are not normally published.** The Fund will, instead, issue a short factual press release announcing that the Board has decided to initiate or extend PPM with the member.

[35] The current approach for proposing LOT consideration of PPMs was established in the Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines (11/27/2000).

[36] Staff's concluding statement can also be published if the authorities consent.

[37] See Updated Guidance Note on the Fund's Transparency Policy .

[38] If PPM discussions are completed on a LOT basis, the Board endorses the staff appraisal, which will serve verbatim as the Board's assessment in the press release, subject to corrections or deletions permitted under the transparency policy.

# Appendix 1. Minimum Requirements for PPM Staff Reports

- A discussion of the economic and financial context,
- A discussion of the near-term and medium-term outlook including the developments that staff see as most relevant for capacity to repay.
- In-depth discussion of capacity to repay both in the baseline and under key risk scenarios.
- Risk assessment matrix, showing the impact of risks on the member's capacity to repay.
- Policy discussions motivated by capacity to repay considerations
- Staff Appraisal
- Presumption of quantitative analysis to support staff views on the risks to capacity repay (except where data constraints are binding) such as either alternative downside scenarios for one or more risks, or an updated DSA (for market access countries), or the staff's own tools.

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