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BOX 1
The Importance of International Monetary Fund Programmes

Background

The International Monetary Fund (IMF) is an organisation established in 1944 to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The IMF usually provides loans under its programmes to member countries that experience Balance of Payments (BOP) problems to support rebuilding international reserves, stabilising currencies, ensuring continuity in payments for imports, and restoring economic growth, while correcting underlying problems. All IMF members are eligible to access IMF's resources in the General Resources Account (GRA) on non concessional terms, and the IMF also provides concessional financial support through the Poverty Reduction and Growth Trust (PRGT), which is tailored to the diversity and needs of low-income countries. For emerging and advanced market economies in crises, IMF assistance is provided through Stand-By Arrangements (SBAs) to address short term or potential BOP problems. The Stand-By Credit Facility (SCF) serves a similar purpose for low-income countries. The Extended Fund Facility (EFF) and the corresponding Extended Credit Facility (ECF) for low-income countries are the main facilities aimed at providing medium term support to countries facing protracted BOP problems. To help prevent or mitigate crises and boost market confidence, members with already strong policies can use the Flexible Credit Line (FCL) or the Precautionary and Liquidity Line (PLL). The Rapid Financing Instrument (RFI) and the corresponding Rapid Credit Facility (RCF) for low-income countries provide rapid assistance to countries with urgent BOP needs, including difficulties posed by commodity price shocks, natural disasters, and domestic fragilities. Objectives, policies and conditionality under an IMF funding arrangement depend on a country's specific economic circumstances.

The prime concern often raised with regard to approaching the IMF for a programme is the conditionalities attached to it. Conditionalities in IMF programmes in general cover key macroeconomic and structural policy adjustments. Even though these conditionalities were largely focused on macroeconomic policies until the early 1980s, the complexity and scope of structural conditions increased subsequently, reflecting the IMF's growing involvement in low-income and transitional countries. These conditionalities are intended to help countries resolve BOP problems, while avoiding recurring instances of such problems. Further, the remedial measures are intended to ensure that the country's BOP will be strong enough to meet payments for imports and to service external debt in a sustained manner.

The policy commitments agreed with country authorities generally include:

Prior Actions (PA): These are the steps a country agrees to take before the IMF approves financing under a programme. Such actions are set out to ensure that a country has the required foundation to achieve programme goals successfully. PA may generally include the elimination of price controls (if any), formulation of the government budget in consistence with the medium term fiscal framework, and taking measures to achieve debt sustainability.

Quantitative Performance Criteria (QPC): These are specific, measurable conditions relating to macroeconomic variables under the control of the authorities, such as monetary and credit aggregates, international reserves, fiscal balances, and external borrowing. QPC may generally include a minimum level of government primary balance, a ceiling on government borrowing, and a minimum level of international reserves.

Indicative Targets (IT): IT may be set for quantitative indicators to assess progress in meeting programme objectives. IT are sometimes set instead of QPC because of uncertainty about economic trends. As uncertainty is reduced, these targets may become QPC, with appropriate modifications. IT may generally include a minimum level of the government primary balance, a minimum level of domestic revenue collection, and a minimum level of social assistance spending.

Structural Benchmarks (SB): These are reform measures that often are non quantifiable but are critical for achieving programme goals. SB may generally include improvements in financial sector operations, building up social safety nets, and strengthening public financial management.

The Success of IMF Programmes in Terms of Fulfilling Conditions

The IMF periodically reviews the performance of its programmes. An IMF programme is designed in such a way that disbursements of funds are conditional on meeting QPC, IT, etc. To improve the programme's success and reduce risks, the IMF recommends measures to improve the practicality of projections, sharpen debt sustainability analysis, enhance the quality of fiscal consolidation, and improve the tailoring of structural conditions. For the RCF and the RFI facilities provided by the IMF, there is no ex-post programme based conditionality or reviews except for limited overall conditionality. If a country fails to meet QPC, the IMF Executive Board may approve a waiver if it is satisfied that the programme will still succeed, provided that the deviation is minor/temporary or national authorities are taking corrective actions. Missed structural benchmarks and indicative targets do not require waivers but are assessed in the context of overall programme performance.

History of Sri Lanka's Relationship with the IMF

Sri Lanka has engaged in sixteen IMF programmes since obtaining membership of the IMF in 1950. Sri Lanka's first IMF programme was in 1965 and the last was in 2016. The most successful IMF programme was the SBA which commenced in 2009, in which the IMF disbursed the full allocation of funds to Sri Lanka. The previous IMF programmes concentrated primarily on improving foreign reserves and the conduct of monetary policy. In addition, there was emphasis on undertaking vital structural reforms that included the introduction of a fuel price formula, improving the Central Bank's independence, a flexible exchange rate policy, and revenue based fiscal consolidation. In the Sri Lankan context, for official dealings with the IMF, the Hon. Minister of Finance holds the capacity of the Governor of the IMF, and the Governor of the Central Bank of Sri Lanka (CBSL) holds the capacity of the Alternate Governor of the IMF.

In addition, the IMF has extended many technical assistance opportunities to the CBSL and to the Government, including the Forecasting and Policy Analysis System (FPAS) model that was aimed at improving the technical capacity of the CBSL in its transition to the flexible inflation targeting framework.

The Overall Success of IMF Programmes in Sri Lanka

Despite being part of many programmes since the first in 1965, only a few IMF programmes in Sri Lanka have been successfully implemented by authorities. This has been mainly due to the lack of commitment in meeting the conditionalities attached to such programmes, especially those related to structural reforms, which required painful macroeconomic adjustments and unpopular policies that were aimed at long term productivity improvements in the economy. Notably, the need to seek external assistance is a result of the failure to take initiative as a country to introduce structural reforms, which are often included in IMF programmes as well. Most reforms identified in the previous IMF programmes have not been completed fully or abandoned abruptly after drawing some disbursements under the financing facilities, while meeting only short term objectives. This has led to a cycle of being in and out of IMF programmes frequently as shown in Table B 1.1. In contrast, India, which obtained seven programmes from the IMF during 1951 to 1993, has not approached the IMF since the conclusion of its last programme in 1993. If an IMF programme is completed successfully, the economy would be able to reap the long term benefits, especially through structural adjustments, and the need to approach the IMF on future occasions of short term economic stresses would have been minimal. A summary of the success of the latest IMF programmes extended in 2009 and 2016 to Sri Lanka in terms of fulfilling the conditionalities is as follows.

IMF-SBA Programme in 2009

As per the IMF staff report for the eighth and final review under the SBA, Sri Lanka fulfilled the net international reserve targets, net domestic financing and reserve money indicative targets related to the programme. Sri Lanka also implemented all structural benchmarks, except the proposed reforms to the regulatory framework for private pension funds prior to the expiration of the programme.

IMF-EFF Programme in 2016

As per the IMF staff report for the sixth review under the EFF, Sri Lanka was unable to meet fiscal targets due to the significant revenue shortfalls after

Table B 1.1
History of IMF Programmes Obtained by Sri Lanka

000' SDRs

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
EFF	Jun 03, 2016	Jun 02, 2020	1,070,780	952,230	892,283
SBA	Jul 24, 2009	Jul 23, 2012	1,653,600	1,653,600	0
ECF	Apr 18, 2003	Apr 17, 2006	269,000	38,390	0
EFF	Apr 18, 2003	Apr 17, 2006	144,400	20,670	0
SBA	Apr 20, 2001	Sep 19, 2002	200,000	200,000	0
ECF	Sep 13, 1991	Jul 31, 1995	336,000	280,000	0
SAFC	Mar 09, 1988	Mar 08, 1991	156,170	156,170	0
SBA	Sep 14, 1983	Jul 31, 1984	100,000	50,000	0
EFF	Jan 01, 1979	Dec 31, 1981	260,300	260,300	0
SBA	Dec 02, 1977	Dec 01, 1978	93,000	93,000	0
SBA	Apr 30, 1974	Apr 29, 1975	24,500	7,000	0
SBA	Mar 18, 1971	Mar 17, 1972	24,500	24,500	0
SBA	Aug 12, 1969	Aug 11, 1970	19,500	19,500	0
SBA	May 06, 1968	May 05, 1969	19,500	19,500	0
SBA	Jun 15, 1966	Jun 14, 1967	25,000	25,000	0
SBA	Jun 15, 1965	Jun 14, 1966	30,000	22,500	0

Source: Sri Lanka Country Page (IMF Website)

EFF – Extended Fund Facility, SBA – Stand-By Arrangement, ECF – Extended Credit Facility, SAFC – Structural Adjustment Facility Commitment

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the Easter Sunday attacks in April 2019. The net international reserve targets were met, and the CBSL was committed to rebuilding reserves, while allowing greater exchange rate flexibility. Sri Lanka also made significant progress on the structural reforms agenda under the programme by implementing key structural benchmarks, including developing a roadmap for flexible inflation targeting and flexible exchange rate regime, submitting the 2018 budget to the Parliament in line with the programme targets including a tax expenditure statement, a plan to rationalise tax expenditures in 2018, and the estimated fiscal cost of non-commercial obligations (including subsidies) for State Owned Business Enterprises (SOBEs), preparation of an effective strategic plan and operating business model by the Board of SriLankan Airlines, obtaining approval of the Cabinet of Ministers for a strategy to rationalise para-tariffs over the medium term together with new revenue sources to offset revenue losses, and the rolling out of the Integrated Treasury Management Information System (ITMIS), among others.

Programmes of Regional Countries with the IMF

Other countries in the region have also engaged in IMF programmes from time to time based on the economic conditions. The number of countries requesting an IMF programme has increased notably with the economic fallout from the COVID-19 pandemic. A list of the latest IMF programmes obtained by regional countries is given in Table B 1.2.

Table B 1.2
Latest IMF Programmes Obtained by Selected Regional Countries

000' SDRs

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn	Amount Outstanding
Pakistan					
EFF	Jul 03, 2019	Oct 02, 2022	4,268,000	2,144,000	2,144,000
RFI	Apr 16, 2020	Apr 20, 2020	1,015,500	1,015,500	1,015,500
EFF	Sep 04, 2013	Sep 30, 2016	4,393,000	4,393,000	2,244,750
SBA	Nov 24, 2008	Sep 30, 2011	7,235,900	4,936,035	0
ECF	Dec 06, 2001	Dec 05, 2004	1,033,700	861,420	0
India					
SBA	Oct 31, 1991	Jun 30, 1993	1,656,000	1,656,000	0
SBA	Jan 18, 1991	Apr 17, 1991	551,925	551,925	0
EFF	Nov 09, 1981	May 01, 1984	5,000,000	3,900,000	0
SBA	Mar 22, 1965	Mar 21, 1966	200,000	200,000	0
SBA	Jul 09, 1963	Jul 08, 1964	100,000	0	0
Bangladesh					
RCF	May 29, 2020	Jun 02, 2020	177,770	177,770	177,770
RFI	May 29, 2020	Jun 02, 2020	355,530	355,530	355,530
ECF	Apr 11, 2012	Oct 29, 2015	639,960	639,960	283,411
ECF	Jun 20, 2003	Jun 19, 2007	400,330	316,730	0
ECF	Aug 10, 1990	Sep 13, 1993	345,000	330,000	0
Nepal					
ECF	Jan 12, 2022	Mar 11, 2025	282,420	78,500	78,500
RCF	May 06, 2020	May 08, 2020	156,900	156,900	156,900
RCF	Jul 31, 2015	Aug 10, 2015	35,650	35,650	24,955
ECF	Nov 19, 2003	Nov 18, 2007	49,900	49,900	0
ECF	Oct 05, 1992	Oct 04, 1995	33,570	16,785	0
Maldives					
RCF	Apr 22, 2020	Apr 24, 2020	21,200	21,200	21,200
SBA	Dec 04, 2009	Dec 03, 2012	49,200	8,200	0
ESF	Dec 04, 2009	Dec 03, 2011	8,200	2,050	0
Afghanistan					
ECF	Nov 06, 2020	May 05, 2024	259,040	184,566	184,566
RCF	Apr 29, 2020	Jun 23, 2020	161,900	161,900	161,900
ECF	Jul 20, 2016	Dec 31, 2019	32,380	32,380	31,930
ECF	Nov 14, 2011	Nov 13, 2014	85,000	24,000	1,200
ECF	Jun 26, 2006	Sep 25, 2010	81,000	75,350	0

Sources: Pakistan, India, Bangladesh, Nepal, Maldives and Afghanistan Country Pages (IMF Website)

EFF – Extended Fund Facility, RFI – Rapid Financing Instrument, SBA – Stand-By Arrangement, ECF – Extended Credit Facility, RCF – Rapid Credit Facility, ESF – Exogenous Shock Facility

Implications of a Future IMF Programme on Sri Lanka

As previously mentioned, Sri Lanka has entered into IMF programmes from time to time to support the BOP position and the Government's reforms agenda. However, unlike in previous occasions, in the current context, an IMF programme will be an important part of strategies to overcome prevailing challenging economic conditions in the country. Considering the current low level of international reserves, servicing the significantly high debt repayments due in the near term will be extremely challenging. Liquidity in the domestic foreign exchange market has dried up amidst high foreign debt service payments and the reduction in foreign exchange inflows, resulting in significant depletion of gross official reserves and inadequate foreign exchange to meet the forex demands for essential imports, such as fuel, gas, coal, medicine, and essential food items. In this context, there is a need for securing a sizeable amount of foreign financing in the immediate future. Entering into an IMF programme would not only provide access to additional financing but would also enhance the confidence of potential foreign investors, including multilateral and bilateral counterparts. This, coupled with the implementation of a macroeconomic policy package, is expected to stabilise the overall macroeconomy which will further promote non debt creating financial inflows.

Major areas that could be expected to be considered in the discussion of a potential IMF programme could include fiscal consolidation, appropriate monetary policy stance, exchange rate flexibility, phasing out of monetary financing, reforms of SOBEs, the gradual unwinding of capital flow management measures, the introduction of market based pricing formulae for utilities and strengthening social safety nets, among others. Some of the aforementioned measures have been already implemented by the CBSL and the Government. The monetary policy has been significantly tightened, the exchange rate is increasingly being determined by market forces, and adjustments to prices of domestic petroleum and LP gas have been allowed to reflect costs. These macroeconomic stabilisation measures could result in a painful adjustment to the economy in the adjustment stage, but it has become imperative considering the current economic crisis. However, in order to successfully implement an IMF programme, the country should ensure the management of external debt sustainably through appropriate measures. Towards this end, the Government has already announced the suspension of external debt servicing for an interim period pending an orderly and consensual restructuring of debt obligations in a manner consistent with an economic adjustment programme supported by the IMF. Further, political and social stability needs to be achieved through an agreement between all relevant stakeholders to successfully negotiate and implement an IMF programme. The success of this will also rest on the extent to which the long neglected structural reforms are implemented in a way that ensures sustainable macroeconomic stability.

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