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GRAY/21/2366

August 25, 2021

**Statement by Mr. Peter and Ms. Wehrle on Independent Evaluation Office—Growth and Adjustment in IMF-Supported Programs
(Preliminary)
Executive Board Meeting
August 30, 2021**

We thank the IEO for this comprehensive evaluation of the nexus between adjustment and growth under Fund-supported programs.

While growth certainly helps in achieving program success in fact and perception, the primary objective of IMF-supported programs is to facilitate policy adjustments that help members address balance of payments problems. Adjustment of unsustainable macroeconomic policies is more often than not a pre-condition for a return to sustainable and balanced growth. Possible program measures under Fund-supported programs need to be evaluated from this perspective rather than their mere impact on growth. This rationale will be particularly important in the context of the recovery from the pandemic.

That said, we welcome the finding that IMF-supported programs have yielded significant growth benefits. We appreciate the careful empirical work aimed at building an adequate counterfactual—something often missing in earlier empirical studies and policy debates. We also welcome the finding of no consistent bias towards excessive austerity under Fund-supported programs during the evaluation period. These findings should receive due attention in the public communication of the evaluation’s main takeaways.

The need for realistic program assumptions and projections cannot be stressed enough. The evaluation confirms previous findings of growth optimism and highlights macro modeling errors and political economy considerations as two explanations. Yet, growth projections under IMF-supported programs are rightly based on the assumption of full program implementation. Thus, subpar growth outcomes can also stem from incomplete implementation of program measures. *We ask the IEO to further elaborate on this issue.*

We strongly share the view that the groundwork to enhance resilience to shocks should be laid in advance through surveillance and capacity development. As the saying goes, an ounce of prevention is worth a pound of cure. Ensuring adequate traction of the Fund's policy advice is essential to make steady progress over what is often a long reform path.

Recommendation 1: ("Attention to growth implications of IMF-supported programs should become more thorough, systematic, realistic and sensitive to social and distributional consequences.")

We generally support recommendation 1, while noting that the primary objective of IMF-supported programs is to address balance of payments problems.

We support having more discussion on fiscal multiplier assumptions in program documents and paying more attention to contingencies for growth shortfalls. While we understand the need for a flexible application of tools regarding fiscal multipliers as mentioned in the Managing Director's statement, we underscore the importance of striking an appropriate balance that still ensures evenhanded implementation.

We see merit in further efforts aimed at monitoring key distributional aspects, if and when feasible. Keeping an eye on the distributional impact of program measures could help to fine-tune measures that are deemed critical for program success. It may also play a role in garnering broader political support for the program.

Recommendation 2 ("IMF-supported programs should pay greater attention to supporting deep, more growth-oriented structural reforms with more effective capacity development support and more effective collaboration with partners in areas outside the Fund's core mandate and expertise.")

We support recommendation 2.

We concur with the need to pay greater attention to structural reform depth, given its positive impact on medium-term growth prospects. We take good note of the positive association between structural conditionality and the cumulative change in the structural reform index.

In setting structural conditionality, we share the Managing Director's view that the Fund should not venture too far away from its core mandate and expertise. Structural conditionality should continue to focus on macro-critical issues that are key in resolving balance of payments problems. The Fund needs to be able to design conditionality and monitor its implementation in an independent manner. At the same time, an effective collaboration and division of labor with key partners such as the World Bank is needed on issues of joint relevance.

We continue to advocate better integration of capacity development with surveillance and lending operations. Capacity development should be tailored to country needs and be mindful of absorptive capacity constraints. We also agree that CD experts could be more involved in program monitoring.

Recommendation 3: (“The Fund should continue to invest in building a toolkit of models and monitors that can be applied as a basis for analysis of the adjustment-growth relationship and assessing growth-related developments in the program context.)

We generally support recommendation 3, provided that models effectively help promote country ownership by mitigating the tendency towards growth optimism.

We support continued efforts to develop tractable and easily accessible models to analyze the nexus between adjustment and growth in the context of IMF-supported programs. These models may require refinements in line with country specificities, and judgment may be needed to take into account other relevant factors. This will need to be done in an evenhanded manner across Fund members.

In terms of budgetary implications, we would like to ask staff about the potential costs (and savings) of implementing the IEO’s recommendations. According to the IEO, much of the work towards supporting program growth strategies with greater attention is already well underway. *Staff’s comments would be welcome.*