INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

October 2023

REVIEW OF THE POLICY COORDINATION INSTRUMENT AND PROPOSAL TO ELIMINATE THE POLICY SUPPORT INSTRUMENT

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 October 4, 2023, consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on August 29, 2023, for the Executive Board's consideration on October 4, 2023.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR[23/341]

IMF Executive Board Completed the Review of the Policy Coordination Instrument and Endorsed the Proposal to Eliminate the Policy Support Instrument

FOR IMMEDIATE RELEASE

Washington, DC: On October 4, 2023, the Executive Board of the International Monetary Fund (IMF) completed the review of the Policy Coordination Instrument (PCI) and endorsed the proposal to eliminate the Policy Support Instrument (PSI).

Against the backdrop of a challenging and shock-prone global environment, the Executive Board approved two key refinements to the PCI to make the PCI more fit-for-purpose while maintaining its strong signaling function. The first is to enhance the flexibility of the review schedule while ensuring regular and uninterrupted signals to markets. The second is to require articulation of the rationale for concurrent use of a Stand by Arrangement or a Stand-by Credit Facility arrangement by members with an ongoing PCI, which allows members to continue to demonstrate their commitment to a reform agenda while benefiting from access to Fund resources when needed. The Board also approved the elimination of the PSI given a demonstrated preference for the PCI as evidenced by no request for the PSI since 2015 and a universal switch by PSI users to the PCI.

The PCI is a non-financing instrument supporting policies that meet upper credit tranche standards and is designed to help countries demonstrate commitment to a reform agenda and unlock financing from other sources. The PCI enables a closer policy dialogue with the Fund, supporting countries in designing and implementing a full-fledged macroeconomic program of policies to address imbalances, prevent crises, build buffers, and enhance stability. The PCI is available to all member countries, has some flexibility around the fixed review schedule, and uses a review-based approach to monitoring conditionality.

The review showed that the PCI has served countries well and met the goals and expectations set out at its establishment in 2017. Take-up has been strong, and the PCI has played a critical role in enabling countries to maintain continuous engagement with the Fund, signal commitment to reforms, and catalyze financing from official and private creditors. For PRGT-eligible countries, the PCI has replaced the PSI as the signaling instrument of choice owing to its more attractive features and the perception by PRGT-eligible countries that it can demonstrate that they are on a path toward emerging market status. The PCI has also played an important role in facilitating access to Fund financing in the aftermath of recent shocks such as the pandemic and the war in Ukraine.

Executive Board Assessment[1]

Executive Directors welcomed the review of the Fund's experience with the Policy Coordination Instrument (PCI) since its establishment in 2017, as well as the proposal to eliminate the Policy Support Instrument (PSI). They noted that the PCI is an important part of the Fund's non-financing instruments, which has helped countries signal strong policy commitment to a reform agenda and unlock financing from official and private creditors.

Directors agreed that the PCI has served the membership well and broadly met the goals and expectations set out at its establishment. They also concurred that the strong policy commitment and the flexibility provided under the PCI have played an important role in facilitating access to Fund financing when needed. To ensure that it remains fit for purpose in today's complex global environment, Directors endorsed proposals to enhance the PCI's operational flexibility and clarity, while safeguarding its signaling of strong policy commitment.

Directors supported the proposals to enhance the flexibility of the PCI review schedule, while maintaining regular and uninterrupted signals. To reduce the risk of sending a premature off-track signal, they agreed to extend the PCI automatic termination period, based on the review frequency. This will ensure that countries can always make use of the three-month buffer before the automatic termination of the PCI. Directors also agreed to allow, in exceptional circumstances, an additional 30 days ("grace period") beyond the regular buffer period for the completion of a review under a PCI that is on-track and where the PCI user is transitioning to a Fund arrangement. This adjustment would ensure a smoother transition, reduce administrative burdens, and have limited impact on the signaling value of the PCI. To mitigate any potential complication with the scheduled PCI review dates, Directors welcomed guidance to encourage sufficient time between the fixed review date and the next test date.

Directors saw scope for improving the modalities for concurrent use of the PCI with SBA and/or SCF arrangements. They supported the requirement to demonstrate in staff reports the relevance of retaining the PCI at approval of an SBA and/or SCF arrangement and, if the arrangement exceeds 12 months in length, at subsequent reviews. Directors also supported the clarification that the duration of an SBA and/or SCF arrangement used concurrently with a PCI can extend beyond the end date of the existing PCI and will depend on the length of financing and adjustment needs.

Directors agreed to examine, at the time of the interim review of the RST expected in April 2024, issues regarding concurrent use of the PCI with the RSF. This would allow for a holistic consideration of issues, which cut across many Fund instruments. Such issues include the appropriateness of existing safeguards to ensure that a country requesting an RSF arrangement with a concurrent PCI does not have a BoP gap, and issues of termination of RSF financing when a country transitions from a PCI to a Fund arrangement.

Notwithstanding the very positive experience among PCI users, Directors noted limited awareness of the PCI's benefits by non-users, which may inhibit its take-up and its catalytic role. In this context, they called for an external outreach to communicate these benefits to country authorities, creditors, and the public. In addition, noting that coordination with Regional

[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.

Financing Arrangements (RFAs) in the context of Fund policy support under a PCI remains untested, Directors recommended closely engaging with RFAs.

Given the lack of demand for the PSI and the universal switch of PSI users to the PCI, Directors endorsed the proposal to eliminate the PSI. While programs supported by the Fund under both instruments meet UCT-quality standards, Directors noted the strong preference of past PSI users for the PCI, given its greater flexibility, universal applicability, and the perception that it is an upgrade relative to the PSI. As such, Directors stressed the importance of clearly communicating that the elimination of the PSI is not expected to have any negative impact on PRGT-eligible countries. More generally, Directors reiterated the importance of maintaining a streamlined and coherent toolkit.

INTERNATIONAL MONETARY FUND

August 29, 2023

REVIEW OF THE POLICY COORDINATION INSTRUMENT AND PROPOSAL TO ELIMINATE THE POLICY SUPPORT INSTRUMENT

EXECUTIVE SUMMARY

The Policy Coordination Instrument (PCI) has served countries well and met the goals and expectations set out at its establishment in 2017. Its take-up has been strong. It has helped catalyze financing from official and private creditors, highlighting its signaling role. Results from a survey of members confirm that countries have a positive assessment of the PCI as a tool to signal commitment to sound policies and continuous engagement with the Fund. Previous users of the Policy Support Instrument (PSI) seeking a non-financial signaling instrument confirmed that they see the PCI as an upgrade and strongly prefer its greater flexibility, resulting in a universal switch from the PSI to the PCI and no request for a PSI since 2015. PCI users also emphasized that the upper credit tranche-quality policies and the flexibility provided under the PCI played an important role in facilitating access to Fund arrangements when needed.

To ensure that the PCI remains fit-for-purpose in a complex global environment with strong credibility and signaling, the review focuses on three areas:

- **Balancing enhanced flexibility of the review schedule with ensuring regular and uninterrupted signals** that can help unlock financing from other sources. Key proposals comprise extending the PCI's automatic termination period, allowing an additional 30-day buffer period for cases when a country transitions simultaneously from the PCI to a Fund arrangement, and providing guidance to ensure sufficient time between the review and test dates.
- **Clarifying modalities of concurrent use with Fund arrangements** to ensure expedited access to Fund resources when warranted. Proposals include clarifying that the duration of the concurrent Stand-By Arrangement or Stand-by Credit Facility (SBA/SCF) can extend beyond the duration of the PCI and explaining the rationale for concurrent use of the PCI with the SBA/SCF arrangement. Issues related to the Resilience and Sustainability Trust (RST) policy will be discussed at the 2024 interim RST review (planned for April 2024) to ensure a holistic treatment across Fund arrangements.
- **Streamlining the Fund's lending toolkit** while preserving its overall coherence. The proposal is to eliminate the PSI, given that the PCI is seen as an upgrade and given no demand for the PSI since 2015.

Consultations with stakeholders suggest the need for outreach to better communicate the benefits of the PCI to country authorities, creditors, and the public.

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Acronyms and Abbreviations

AMF	Arab Monetary Fund
BoP	Balance of Payments
CA	Current Account
CMIM	Chiang Mai Initiative Multilateralization
CRA	Contingent Reserve Arrangement
EA	Exceptional Access
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EFSD	Eurasia Fund for Stabilization and Development
EFSM	European Financial Stability Mechanism
ESM	European Stability Mechanism
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FLAR	Latin America Reserve Fund
GFSN	Global Financial Safety Net
GRA	General Resources Account
IFI	International Financial Institution
IPU	Interim Performance Update
LIC	Low-income country
MDB	Multilateral Development Bank
MFA	Macro-Financial Assistance
ODA	Official Development Assistance
PA	Prior Action
PCI	Policy Coordination Instrument
PLL	Precautionary and Liquidity Line
PMB	Program Monitoring with Board involvement
PSI	Policy Support Instrument
PRGS	Poverty Reduction and Growth Strategy
PRGT	Poverty Reduction and Growth Trust
QPC	Quantitative Performance Criterion
QT	Quantitative Target
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RFA	Regional Financing Arrangement
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
RT	Reform Target
SB	Structural Benchmark
SBA	Stand-By Arrangement

SCF	Stand-by Credit Facility
SCM	Synthetic Control Method
SDGs	Sustainable Development Goals
SLA	Staff-Level Agreement
SLL	Short-term Liquidity Line
SMP	Staff-Monitored Program
SOE	State-Owned Enterprise
UCT	Upper-Credit Tranche
UFR	Use of Fund Resources

INTRODUCTION

1. **The Policy Coordination Instrument (PCI) is a non-financial instrument designed to help countries demonstrate commitment to a reform agenda and unlock financing from other sources**.[1] Established in 2017, the PCI aims to support countries in designing and implementing a full-fledged macroeconomic program of policies to address imbalances, prevent crises, build buffers, and enhance stability. The PCI enables closer cooperation with the Fund in cases where countries commit to upper-credit tranche (UCT) quality policies and more intensive monitoring. However, at the time of requesting a PCI, such countries must not be seeking financial assistance from the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT).[2] The design, request, and review process of the PCI are structured based on Fund arrangements, with several design features drawing on the Policy Support Instrument (PSI).[3] Similar to the PSI, the PCI is a form of technical assistance. However, unlike the PSI, which is restricted to PRGT-eligible members, the PCI is available to all member countries.

2. **Since its establishment, the PCI has seen strong take-up, facilitated timely access to Fund financing, replaced the PSI, and catalyzed other external financing**.

- As of August 2023, the Board has approved eight PCIs for six countries—Cabo Verde, Paraguay, Rwanda, Senegal, Serbia, and Seychelles (see Table 1). Six PCIs have expired: two were cancelled (in one case replaced by an arrangement, Serbia 2021, and in the other by a successor PCI, Rwanda), one was automatically terminated (Seychelles), and three ended following the completion of the last review (Cabo Verde, Senegal, and Serbia 2018).[4]
- The PCI has been used concurrently with Fund arrangements in two instances: one with a blended Stand-By Arrangement (SBA)-Stand-by Credit Facility (SCF) arrangement (Senegal) and another with a Resilience and Sustainability Facility (RSF) arrangement (Rwanda).[5] During the pandemic, emergency financing was approved for four countries with a PCI in place: Cabo Verde

[1] The PCI was established by Board Decision No. 16230-(17/62) adopted on July 14, 2017. For more details on the PCI design, see Adequacy of the Global Financial Safety Net—Proposal for a New Policy Coordination Instrument, and the Policy Coordination Instrument—Operational Guidance Note.

[2] In the context of Fund financial support, the term upper credit tranche financing refers to an arrangement that meets two conditions under the Fund's legal and policy frameworks. First, a program would need to be designed to solve the member's balance of payments problem and achieve medium-term external viability; and second, adequate safeguards would need to be in place for the Fund's lending, including capacity to repay the Fund. See Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing Under Exceptionally High Uncertainty.

[3] The PSI was established by Board decision No. 13561-(05/85) adopted on October 5, 2005. The PSI is restricted to PRGT-eligible countries that meet qualification criteria of attaining a policy framework focused on consolidating macroeconomic stability and debt sustainability while deepening structural reforms in areas where growth and poverty reduction are constrained. For more details on the PSI design, see Policy Support and Signaling in Low-Income Countries, and the Handbook of IMF Facilities for Low-Income Countries.

[4] The PCI decision provides that a PCI will be terminated in a number of situations including non-completion of a review for a 12-month period, where the termination applies automatically.

[5] The paper uses the notation "SBA-SCF" and "RFI-RCF" to refer to blended Fund support.

and Rwanda received disbursements under the Rapid Credit Facility (RCF), Seychelles under the Rapid Financing Instrument (RFI), and Senegal under a blended RFI-RCF. PCI users[6] have emphasized that the UCT-quality nature of the policies under the PCI and the PCI flexibility played an important role in facilitating access to Fund arrangements when needed.

Table 1. Summary of Members' Use of the PCI

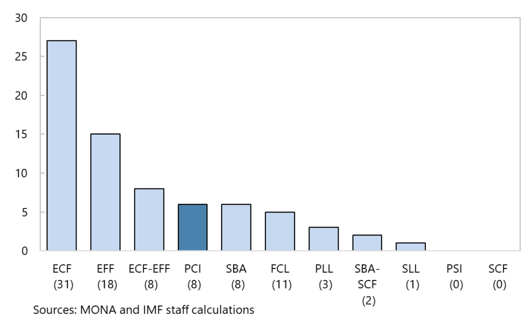
Country 1/	Approval Date	Initial End Date	Revised End Date	Ongoing	PRGT Eligibility	Date of Last Review	Interim Performance Update	Post-PCI Engagement
Cabo Verde	7/15/2019	1/14/2021	3/31/2021	No	Yes	3/26/2021		ECF (Jun. 2022)
Paraguay	11/21/2022	11/20/2024		Yes	No	6/7/2023		
Rwanda 2/	6/28/2019	6/27/2022	12/22/2022	No	Yes	6/22/2022	2nd review, Oct. 2020	PCI/RSF (Dec. 2022)
Rwanda	12/12/2022	12/11/2025		Yes	Yes	5/24/2023		
Senegal	1/10/2020	1/9/2023		No	Yes	12/16/2022		EFF/ECF/RSF (Jun. 2023)
Serbia	7/18/2018	1/17/2021		No	No	1/8/2021		PCI (Jun. 2021)
Serbia 3/	6/18/2021	12/17/2023	12/19/2022	No	No	12/19/2022		SBA (Dec. 2022)
Seychelles 4/	12/13/2017	12/12/2020		No	No	12/17/2019	5th review, Sep. 2020	EFF (Jul. 2021)

1/ As of June 2023.
2/ Cancelled in December 2022 and replaced by a concurrent PCI/RSF arrangement.
3/ Cancelled in December 2022 and replaced by an SBA.
4/ Automatically terminated after non-completion of a review for a 12-month period and followed by an EFF.

- Since its establishment in 2017, the PCI has had as many users as the SBA (Figure 1) and more users than the Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), and Short-term Liquidity Line (SLL).

- Interviews with previous PSI users seeking a non-financial signaling instrument confirmed they see the PCI as an upgrade—placing them closer to the middle-income country status—and strongly prefer its greater flexibility, resulting in a universal switch to the PCI.

Figure 1. Number of Users by Arrangement Type Since 2017



Sources: MONA and IMF staff calculations
Note: As of May 2023. The number of program approvals is shown in parentheses.

- Most PCIs approved prior to the pandemic were successfully completed or replaced by a new PCI and the post-pandemic take-up has been comparable to that of the PSI prior to 2017. PCI users generally had a very positive experience, and some indicated their intention to continue using the instrument in the future.

- The PCI has helped catalyze financing from both official and private creditors (¶12 and Box 1 below), making its signaling one of the most valued features of the instrument among users.

[6] Henceforth, "PCI users" refer to member countries that have used the PCI.

3. **This is the first review of the PCI**. When the PCI was approved, the Executive Board asked for a review after ten PCIs were approved or five years after the Board decision, whichever was triggered first (or earlier, if warranted). The experience since then has been sufficiently broad—in terms of country coverage and program design—to provide a basis for assessing its effectiveness.

4. **Given that no member has requested a PSI since 2015 and that previous PSI users have opted for the PCI since its establishment, this review also provides an opportunity to analyze the scope for eliminating the PSI**. The Executive Board had agreed at the time of approving the PCI to retain the PSI to allow sufficient time to assess the experience with the PCI. Despite the potential overlap between the PCI and the PSI (Annex I), it was difficult to predict ex ante whether potential PSI qualifiers would prefer the additional signaling effect offered by the PSI via its qualification criteria (see footnote 3) or the PCI's greater flexibility and availability to all member countries. As a result, Directors decided to maintain the PSI alongside the PCI and reconsider its merits and/or modification in the context of the 2018 Review of Facilities for Low-Income Countries (LICs). However, the 2018 Review of Facilities for LICs did not recommend the elimination of the PSI as the experience with the PCI was too limited at that time to make an assessment.

5. **The review takes place against the backdrop of a very challenging global economic environment, raising the question of whether the PCI is fit-for-purpose**.

- The global economy has been buffeted by a sequence of adverse shocks—not least the COVID-19 pandemic and the war in Ukraine—at a time when policy buffers are limited. This underscores the need for strong coordination across the various layers of the global financial safety net (GFSN) and improved cohesion of the Fund's toolkit.[7] *Does the PCI enable countries to better coordinate their access to different layers of the GFSN and to more reliable creditor support?*
- Global financial tightening has increased repricing and rollover risks which, combined with adverse shocks and a weak outlook, could increase balance of payments (BoP) needs. *Does the PCI allow enough operational flexibility to cope with heightened uncertainty for all members? Do the design features of the PCI facilitate expedited access to Fund financing when warranted?*
- Climate-related natural disasters have increased in intensity and frequency, creating enhanced demand for the RSF in countries that do not necessarily need to address short- to medium-term BoP problems requiring a program supported by the GRA and/or the PRGT.[8] *Is the PCI well-tailored to the needs of countries that do not require and are not seeking GRA or PRGT financing but seek support under the RSF?*

[7] The key layers of GFSN are countries' own international reserves, bilateral swap arrangements, regional financing arrangements (RFAs), and the Fund.

[8] The RST provides loans under the RSF to eligible members to enhance their economic resilience and sustainability by (i) supporting policy reforms that reduce macro-critical risks associated with select longer-term structural challenges, and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges—thereby contributing to the member's prospective BoP stability. For more details on the RSF, see Proposal to Establish A Resilience and Sustainability Trust.

6. The overarching objective of the review is to preserve the credibility and quality of signaling of the PCI while enhancing its flexibility. The review will seek to: enhance flexibility of the review schedule while ensuring strong and credible signaling; clarify modalities of concurrent use of the PCI with Fund arrangements to preserve the signaling and effectiveness of the PCI and ensure smooth transition to Fund arrangements when warranted; and streamline the Fund's toolkit, with the objective of eliminating the PSI while preserving the overall coherence of the framework.

THE EXPERIENCE WITH THE PCI

This section focuses on the implementation of the PCI against the goals and expectations set out by the Executive Board at the time of its establishment. It draws on empirical evidence and stakeholders' input to assess the experience to date across three dimensions: (A) the Fund's toolkit and GFSN cohesion; (B) program design; and (C) access to Fund financing.

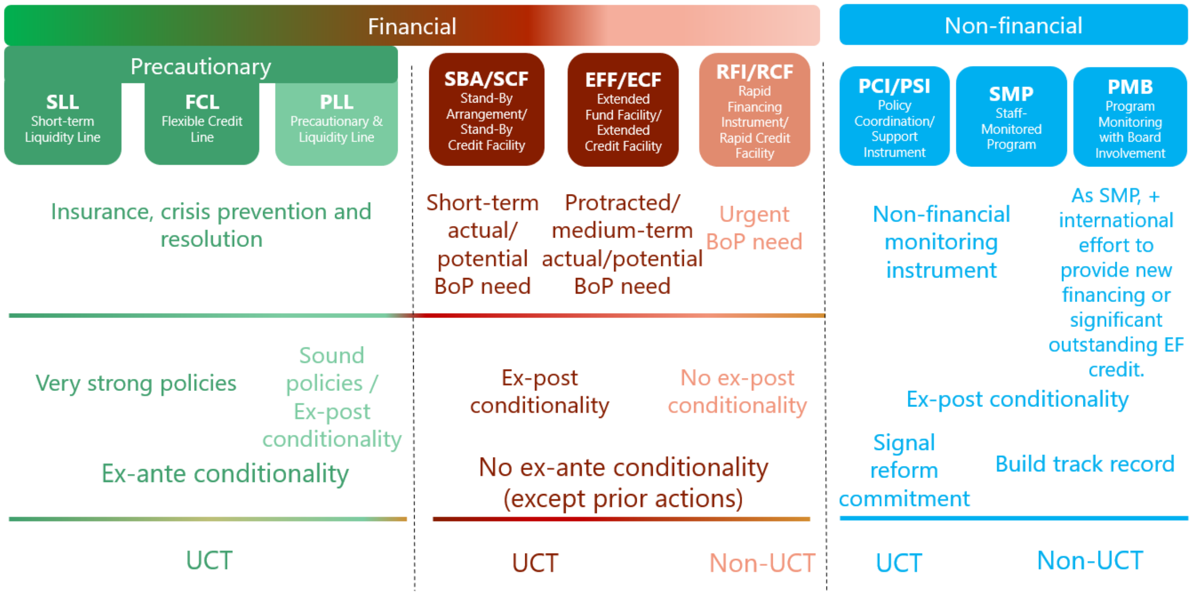
A. The Fund's Toolkit and GFSN Cohesion

Expectations

7. While its design is based on Fund arrangements and the PSI, the PCI has important differences from other instruments. The PCI was, thus, expected to play an important role in the Fund's toolkit (Figure 2).

- The PCI is available to any member country that: (i) at the time of the request for a PCI, does not require and is not seeking financial assistance from the GRA or PRGT; and (ii) seeks to maintain a close policy dialogue with the Fund, through the Fund's endorsement and assessment of its economic and financial policies under the PCI. It is not available to members with overdue financial obligations to the GRA, the PRGT, or the Resilience and Sustainability Trust (RST).
- The PCI does not have qualification criteria, but countries would have to commit to policies strong enough to constitute the basis for a Fund-supported program, i.e., UCT-quality policies. Specifically, a member's request for a PCI may be approved only if the Fund is satisfied that the member's policies set forth in the PCI program meet the standards of UCT conditionality and that the member's program will be carried out. This feature differentiates the PCI from the Staff-Monitored Program (SMP) and the Program Monitoring with Board Involvement (PMB), which are also non-financial instruments but do not meet the UCT-quality standard and are used to allow countries to build a track record toward a UCT-quality program.
- The PCI offers an approach to assess economic policies with clear targets and timeline on a more frequent basis than surveillance through Article IV consultations.

Figure 2. A Stylized Schematic of the Fund's Toolkit



Note: The figure highlights de facto predominant uses. The figure excludes the RSF, which requires a concurrent UCT-quality arrangement or instrument with at least 18 months remaining prior to expiry.

8. **Similarly, the design features of the PCI differ from those of the PSI in some important respects, potentially enhancing its attractiveness (Annex I)**. Unlike the PSI that is available only to PRGT-eligible countries meeting qualification requirements, the PCI is available to all member countries that do not need and are not seeking GRA or PRGT financing at the time of the request for a PCI.[9] The PCI has a more flexible review schedule than the PSI and relies on a review-based approach to monitor conditionality (¶15). A priori, it was expected that, should the PCI attract a more diversified user base geographically and in terms of income level, PSI users would perceive a benefit in switching to a PCI even if both instruments remained available.

9. **It was also expected that the PCI could lead to a more efficient use of existing GFSN and Fund resources**. Since 2000, many of the SBA arrangements treated as precautionary had low- to mid-level access. The main motivation for those arrangements was to support the authorities' reform agenda and signal commitment to reforms. The PCI was aimed precisely at helping members achieve these objectives without committing the Fund's financial resources. The expectation was that demand for low-access SBA/SCF arrangements treated as precautionary, including in cases where such arrangements were used to tap financing from RFAs and other layers of the GFSN, would be reduced after a PCI approval thereby allowing a more efficient utilization of Fund resources.

[9] For PRGT-eligible countries, a poverty reduction and growth strategy (PRGS) is encouraged if poverty reduction is considered critical to program success.

Assessment

10. Results from a survey of the Fund membership confirm that countries generally have a positive assessment of the PCI and a strong preference for the PCI over the PSI (Annex II). There was broad consensus that the design features of the PCI are more attractive than those of the PSI. Respondents also had very positive assessments of the close dialogue with the Fund to support prudent macroeconomic policy management. PCI users strongly agreed that PCI programs have delivered a clear and strong signal of commitment to sound economic policies, thereby facilitating access to financing from other official creditors and donors, improving market perceptions, and securing financing on international markets at favorable terms. Publication of documents—all PCI staff reports have been published (on average nine days after Board approval) as well as the Interim Performance Updates (IPU)—consistent with the Transparency Policy may also have contributed to the signaling effect.

11. Notwithstanding the very positive experience among PCI users, limited awareness of the benefits of the instrument was flagged by non-users as the main factor inhibiting take-up. To address this problem and enhance effectiveness of the toolkit, staff is developing an outreach plan that, after the completion of the PCI review, would aim to: (a) raise awareness of the PCI in the context of the broader lending toolkit; (b) engage with key stakeholders to alert them of the review and explain PCI features, including how it can facilitate transition to a Fund arrangement when warranted; (c) work with area and functional departments to ensure country teams are aware of PCI features and can respond to authorities' inquiries; and (d) issue a press release and background briefings to media upon request, and post updates on the external website. The potential audience includes country authorities, creditors, other multilateral institutions, and the public. Consistent with the IMF-RFA collaboration framework, staff will also engage with RFAs as part of the external outreach regarding leveraging the PCI for mobilizing RFA financing support.

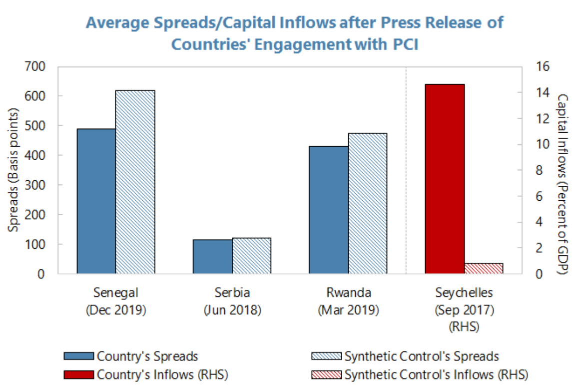
12. Empirical analysis suggests that the PCI helped catalyze financing from official creditors and private investors, in line with the survey findings. Among the six PCIs approved prior to November 2022, gross capital inflows generally increased following PCI approval, on average by about 1 percent of GDP (Figure 3). The positive effect was particularly strong for public capital flows and for official development assistance (ODA) disbursements. Private capital inflows were robust in most cases—Serbia (2018 and 2021), Cabo Verde (2019), and Seychelles (2017). Results from a synthetic control analysis provide further evidence of a favorable effect of the PCI on Senegal's sovereign bond spreads and Seychelles' capital inflows (see Box 1).

Box 1. The Catalytic Role of the PCI

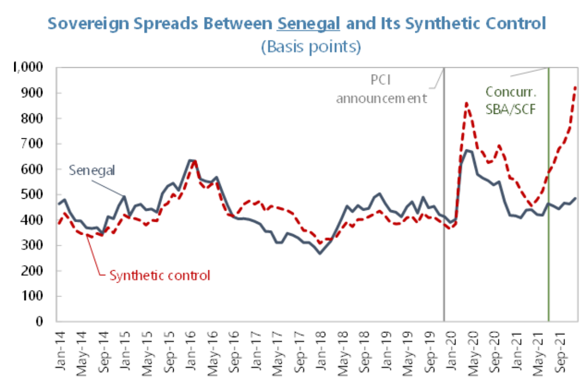
To examine the catalytic effect of the PCI, an empirical exercise is conducted using the synthetic control method (SCM). Focusing on the PCIs approved through November 2022 (Cabo Verde, Rwanda, Senegal, Serbia, and Seychelles), the analysis proxies market sentiment using sovereign spreads and, where data on sovereign spreads are not available, capital flows.[1/] The impact of a treatment—the PCI approval, starting from the first official communication (e.g., IMF press release) announcing the PCI program—is measured as the difference between post-treatment outcomes (sovereign spreads or capital inflows) of a PCI user and a "synthetic control group". For each PCI user, a synthetic control group is constructed as a weighted average of peer countries that did not have a PCI or any Fund arrangement, where weights are chosen to approximate the relevant characteristics of each PCI user prior to the PCI approval.[2/] The variables used as criteria for matching are the five-year pre-PCI average of gross government debt, current account balance, and international reserves—all measured in percent of GDP—as well as the annual average of outcome variable in the year prior to the PCI.

The empirical results suggest that the approval of a new PCI is accompanied by improved market sentiment. The synthetic control could approximate the trend in each PCI user relatively well in most cases,[3/] with results indicating that PCI programs are associated with improved market sentiment as reflected in lower borrowing costs and/or higher capital inflows.[4/, 5/] Specifically:

- *PCI approval played a critical role in lowering spreads for Senegal and Rwanda*, with their average spreads over two years after the PCI approval lower by 130 and 44 basis points, respectively, and to a smaller extent for Serbia, relative to their synthetic controls.
- *The PCI also helped attract more capital inflows in the case of Seychelles* where inflows were about 14 percent of GDP during the two-year period after the PCI approval compared to just under one percent of GDP in the synthetic control.
- *The catalytic effect appears to be the largest for Senegal*, even after the approval of the SBA-SCF arrangements concurrent with the PCI in June 2021. This suggests that the PCI continues to provide a positive signal to the market when used concurrently with the SBA-SCF arrangements. As a result, sovereign spreads for Senegal continued to be significantly lower than its synthetic control, on average about 270 basis point from the approval of the SBA-SCF arrangements until end-2021.



Sources: Bloomberg and BOP/IIP Statistics, IMF staff calculations.



Sources: Bloomberg, and IMF staff calculations.

Box 1. The Catalytic Role of the PCI (concluded)

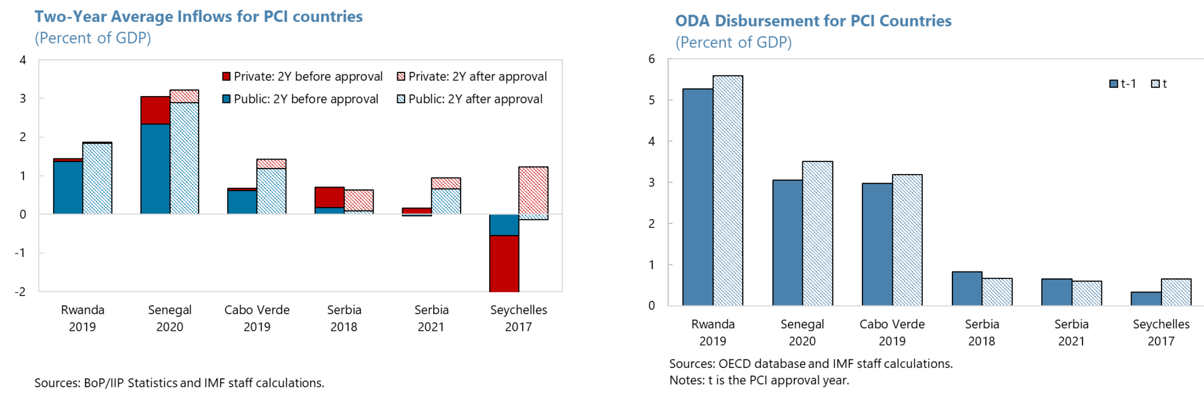
These results are consistent with the assessment from the case studies (Annex III) and interviews with the authorities. For example, the PCI was viewed as helping improve investors' perceptions in the case of Senegal, as illustrated by the contained spreads during the pandemic and favorable terms on international markets for the 2021 debt buy back operation. In addition, the PCI helped attract budget support from official multilateral and bilateral creditors and mobilize private sector financing, including through foreign direct investment (FDI).

1/ For PCI users whose sovereign spreads data are available from the EMBIG or the IMF's Sovereign Spread Monitor (SSM) (i.e., Senegal, Serbia, and Rwanda), averages of sovereign spreads are obtained at a monthly frequency. For those with no sovereign spreads data, the analysis relies on the rolling sums across four quarters of quarterly gross capital inflows from the IMF WEO database.
2/ For more detail on SCM, see Abadie and others (2021).
3/ For Cabo Verde, the matching in the pre-PCI period was insufficient to draw meaningful conclusions; results are therefore excluded.
4/ The effects are, however, not as strong and broad based as that from PLLs and FCLs shown in Lisi (2022).
5/ A series of placebo experiments indicate that the effects for Senegal and Seychelles are statistically significant.

Figure 3. External Financing and the PCI

Following PCI approval, countries experienced an increase in capital inflows, driven mainly by public inflows….

…. as well as higher ODA disbursements.



13. The more shock-prone global environment also appears to have impacted demand for the PCI.

- Since 2017, several adverse shocks have hit the global economy, increasing resort to Fund emergency financing and/or arrangements that were treated as precautionary or disbursing to address, respectively, potential or actual BoP needs. Cabo Verde and Seychelles transitioned to an Extended Credit Facility (ECF) arrangement and an extended arrangement under the Extended Fund Facility (EFF), respectively—and other members requested financing under the RFI/RCF or Fund arrangements as well as access augmentations under existing arrangements.
- Amid higher uncertainty and frequency of shocks, some members preferred requesting a precautionary SBA/SCF arrangement than a PCI to benefit from the insurance offered by the

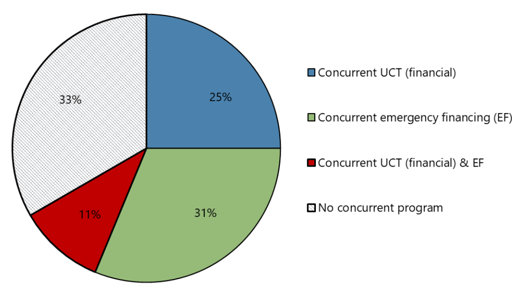
former and immediate access to Fund financing should a BoP need materialize, despite associated commitment fees (e.g., Armenia, Georgia).

- There have been no low-access precautionary SBA or SCF arrangements since 2017—defined as arrangements with access below 40 percent of quota for the purpose of this review.[10] This could be due to lack of demand for such instruments in the more shock-prone global environment or because the PCI has replaced such low access arrangements.
- The membership survey suggests that countries tend to prefer instruments that authorities and investors are already familiar with (Annex II), highlighting the need for outreach.
- Finally, there has not been any PCI program involving coordination with RFAs, though this may reflect specific design features of the RFAs (Box 2).[11]

Box 2. The PCI and the RFAs[1/]

As part of the Fund's broader efforts to strengthen the GFSN, the PCI was designed to facilitate close collaboration between the Fund and RFAs. RFAs are an important layer of the GFSN, providing financing support to members in the event of external liquidity or BoP needs. In addition to geographic restrictions, RFAs differ greatly in terms of lending capacity and instruments, program design and monitoring approaches, and institutional and legal frameworks (for more details, see IMF, 2017).[2/]

RFA Lending: Overlap with IMF Programs and Emergency Financing, 2017-22



Sources: MONA, RFAs' websites, and IMF staff calculations.

Potential factors preventing the PCI from mobilizing RFAs include:

1. **Restrictive legal framework**. Some RFAs do not regard a Fund non-financial instrument to monitor a member's program, such as the PCI, as eligible to unlock the RFA financing. For example, staff understands that the CMIM, MFA, and BRICS CRA's legal frameworks only allow for the IMF-linked portion of their regional resources when the recipient country has an on-track financial (and non-precautionary, in the case of MFA) arrangement with the Fund.

1/ This box is based on consultations with RFAs, Cheng and others (2018), Cheng, Miernik, and Turani (2020), and staff analysis.

[10] An analysis of the distribution of access levels of all precautionary SBA and SCF arrangements approved until April 2023 indicates that arrangements at and below 40 percent of quota constitute the first quartile of the distribution. These are taken as low-access arrangements for the purpose of this review.

[11] In addition, whilst multilateral development banks (MDBs) are not RFAs, staff reviewed the charters of selected MDBs (including the World Bank, Asian Development Bank, the African Development Bank, the Inter-American Development Bank, European Bank for Reconstruction and Development and the Asian Infrastructure Investment Bank) and found no linkages to their provision of financing based on the Fund's approval of policy support for a member under a UCT-quality instrument that is not financial, such as the PCI.

Box 2. The PCI and the RFAs[1/] (concluded)

2. **Skin in the game**. Even in those cases where not required (AMF, ESM, and FLAR), Fund arrangements are often perceived as being associated with more significant Fund involvement than non-financial instruments. As a result, two-thirds of RFA lending over the past five years overlapped with Fund-supported programs and emergency financing. Interviews with RFAs suggest that Fund-supported programs, under both Fund arrangements and non-financial instruments (PCI/PSI), are considered as a credit risk mitigator and hence help facilitate RFA financing. Nonetheless, there is a preference for Fund arrangements, especially for countries that are prone to a sudden stop in capital flows despite good macroeconomic fundamentals.
3. **Regional distribution**. Most previous and current PCI users are in Africa where there is no RFA, hence precluding any positive association between the demand for PCI programs and access to RFA financing.
4. **Limited interest in Fund involvement**. The RFAs that are not constrained by their legal framework (to require Fund financing) have developed their capacity to establish and monitor conditionality and may not see the need for Fund involvement, unless there is a strong case for using Fund conditionality as a commitment device or relying on the Fund in the areas not within their expertise (e.g., climate).

2/ Europe has several RFAs, supporting EU countries and close partners in the region, such as the European Stability Mechanism (ESM), the European Financial Stability Mechanism (EFSM), and the Macro-Financial Assistance (MFA). Other RFAs covering other regions include the Arab Monetary Fund (AMF), the BRICS Contingent Reserve Arrangement (CRA), the Chiang Mai Initiative Multilateralization (CMIM), the Eurasia Fund for Stabilization and Development (EFSD), and the Latin America Reserve Fund (FLAR).

B. Program Design

Expectations

14. PCI programs need to meet the standard of UCT-quality policies. While the PCI has no qualification criteria, the requesting country needs to credibly commit and have the capacity to implement policies strong enough to constitute the basis for a Fund-supported program (i.e., UCT-quality policies). Such a program would provide a clear signal of strong policies and avoid the perception that the non-financial nature of the PCI represents a weaker or otherwise different standard than Fund arrangements. Strong policy commitment should also help unlock financing from official and private creditors as well as facilitate transition to a Fund arrangement should the PCI user experience a BoP need. The design and modalities for PCI conditionality also need to be consistent with the Fund's Guidelines on Conditionality.

15. Although program modalities under the PCI are streamlined and provide more flexibility than the PSI, these features were not expected to dilute signaling nor diminish the effectiveness of conditionality as a commitment tool.

- *A review-based approach to monitoring conditionality was expected to alleviate stigma and streamline the review process.*[12] Contrary to the PSI where the non-observance of assessment

[12] PCI programs are monitored by quantitative targets (QTs) and/or reform targets (RTs), which are new terms to help signal the shift to review-based monitoring. QTs and RTs are analogous to performance criteria (PCs) (but monitored with the review-based approach) and structural benchmarks (SBs), respectively, in the context of Fund arrangements.

criteria requires waivers, failure to meet a quantitative target (QT) under the PCI does not trigger the need for a waiver, although it could indicate that the PCI program may no longer be on track for successful implementation. The absence of waiver requirements in the PCI, however, should not weaken the positive signaling effect of the PCI, as the completion of a program review still requires the Executive Board's approval.[13]

- *Reviews are on a fixed schedule to provide regular "on/off" signals, with a limited time buffer to provide some flexibility*. The schedule of PSI reviews is rigid irrespective of the status of PSI program implementation or prospects. By contrast, the PCI provides a review window (or "buffer") of three months following the scheduled review date specified in the PCI request to accommodate delays (three months in case of semi-annual reviews to be proportionally reduced for more frequent reviews) for authorities to implement overdue policies, take corrective measures, or mobilize financing needed to close the financing gap. If PCI reviews cannot be completed within the buffer period, staff is required to provide an IPU for information to the Board. A brief factual statement in the form of a press release stating the issuance of the IPU would be published. Updates on program performance would reduce uncertainty regarding the delay, by providing an overview of the economic situation and program performance, indicating the sources of the delay, and highlighting the corrective actions needed to bring the PCI program back on track.[14]

Assessment

16. The design of PCI programs was broadly consistent with that of the PSI and Fund arrangements (Figure 4).[15]

- *Reform agendas were marginally heavier under the PCI, particularly for PRGT-eligible users*. The median number of reform targets (RTs) under PCI programs of PRGT-eligible users was higher than that of their past PSIs, the PSIs of PRGT-eligible members that are not users of the PCI, and the number of structural benchmarks (SBs) included in PRGT arrangements. The structural reform agenda under the PCIs for GRA-only countries was marginally less intensive than that

[13] Where QTs or RTs are not met, the Board needs to exercise judgment and is informed by compensating factors, including an assessment that deviations were either minor or temporary, or that sufficient corrective action had been taken to achieve the objectives of the PCI program.

[14] Non-completion of a review for a 12-month period since the Board date of the most recently completed review or since the Board approval of the PCI would result in an automatic termination of the PCI.

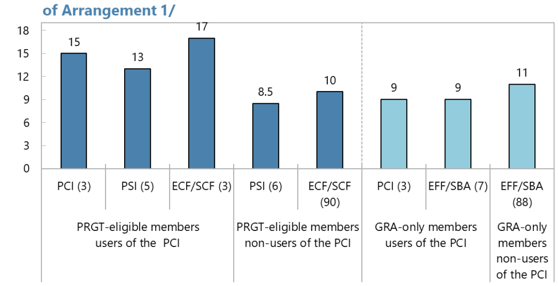
[15] To assess the design and implementation of conditionality under the PCI, PCI programs are benchmarked against other contemporaneous Fund-supported programs except for the PSI (for more details, see Annex IV). PCI programs for PRGT-eligible users (Cabo Verde, Rwanda, Senegal) are benchmarked against (i) their PSIs (approved prior to the establishment of the PCI in 2017); (ii) their Fund arrangements (i.e., ECFs and SCFs approved before and/or after the establishment of the PCI); and (iii) the PSIs and Fund arrangements of other PRGT-eligible members that are not users of the PCI. Similarly, PCI programs for GRA-only countries (Serbia and Seychelles) are benchmarked against (i) their Fund arrangements (i.e., EFFs and SBAs approved before and/or after the establishment of the PCI) and (ii) the Fund arrangements of other GRA-only countries that are not users of the PCI. Annex IV discusses macroeconomic performance relative to comparators. The analysis excludes the two new PCIs approved for Rwanda and Paraguay, which, to date, have undergone only one review.

underpinning the Fund arrangements of peers that did not use the PCI, but still broadly aligned with the breadth of SBs in GRA-only PCI users' past arrangements.

Figure 4. Program Design and Conditionality

PCI programs were associated with heavy reform agenda, especially for PGRT-eligible users…

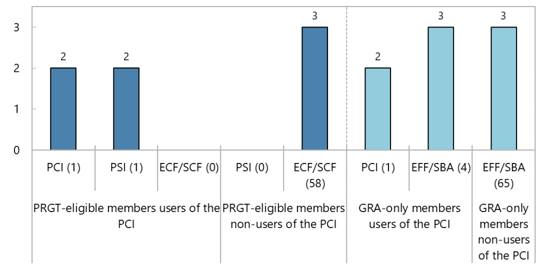
Reform Targets / Structural Benchmarks at Program Approval by Type of Arrangement 1/



Sources: MONA and IMF staff calculations.
1/ Median number of RTs/ SBs at approval since 2009. The number of programs in each category is shown in parentheses.

… but with less use of prior actions…

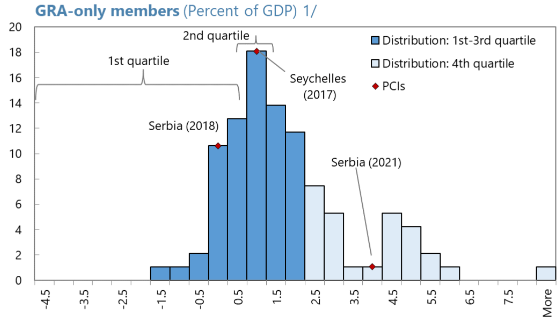
Prior Actions at Program Approval by Type of Arrangement 1/



Sources: MONA and IMF staff calculations.
1/ Median number of RTs/SBs approval since 2009. The number of programs in each category is shown in parentheses. Programs with no PAs are excluded.

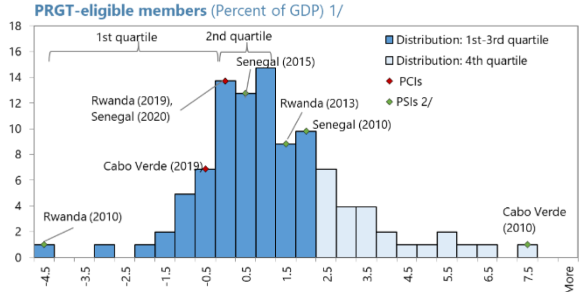
… and a relatively smaller planned fiscal consolidation.

Distribution, 2-Year Primary Fiscal Balance Adjustment Target, GRA-only members (Percent of GDP) 1/



Sources: MONA, WEO database, and IMF staff calculations.
1/ Fund-supported programs approved for GRA-only members since 2009.

Distribution, 2-Year Primary FIscal Balance Adjustment Target, PRGT-eligible members (Percent of GDP) 1/



Sources: MONA, WEO database, and IMF staff calculations.
1/ Fund-supported programs approved for PRGT-eligible members since 2009.
2/ Previous PSI use of PCI users.

- *By contrast, prior actions (PAs) were less prevalent.* Only two of the six PCIs and one out of eleven PSIs included in the analysis featured PAs while 60 percent of other Fund UCT-quality programs included one. The average number of PAs was lower among PCI- and PSI programs than among arrangements.

- *Planned fiscal consolidation under PCIs and PSIs generally reflected less adjustment needs—as expected of such users that do not need Fund financing*. Most PCI and PSI users, who subsequently switched to the PCI, were ranked in the second quartile of the peer distribution of primary balance adjustment targets during the first two years after the PCI/PSI approval.[16]

17. The review-based conditionality has supported strong performance under PCI programs. The elimination of waivers when QTs are missed did not result in lower implementation rates compared to Fund-supported programs in peer countries (Figure 5). For GRA-only member

[16] The level of ambition could be assessed through, among other variables, the lens of programmed fiscal policy because fiscal adjustment is at the center of macroeconomic stabilization in the program context and relates to policy instruments under the control of the country authorities.

countries (Serbia and Seychelles), observance of QTs under PCIs was better than it was for PCs in GRA arrangements across all areas except for the monetary sector.[17] Similarly, the observance rates of QTs under PCIs for PRGT-eligible countries were higher than that for PCs under PRGT-supported programs in nearly all sectors, except for the fiscal, where fiscal targets were marginally less likely to be met under PCI programs. All in all, this experience suggests that the review-based approach supported the signaling role of the PCI and reflected the effectiveness of such conditionality as a commitment tool.

18. The implementation of structural conditionality under the PCI has also been broadly aligned with the PSI and other Fund-supported programs. For PRGT-eligible member countries, observance of RTs under PCIs was similar to that with SBs under PSIs and PRGT arrangements, though with a higher share of remaining RTs when PCIs were cancelled (Figure 5). Although the share of unmet RTs under PCIs for GRA-only member countries was higher than that of unmet SBs under GRA arrangements, this is primarily driven by Seychelles (see ¶19).

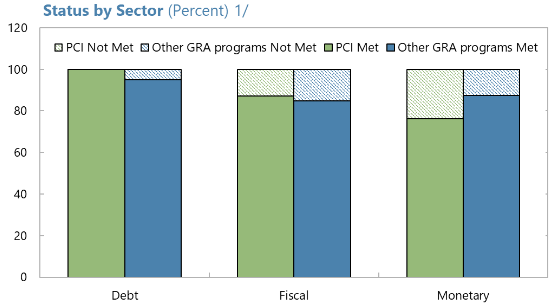
19. Case studies suggest that the flexibility of the review schedule afforded by the PCI was helpful to accommodate shocks (Annex III). Experience from PCIs shows that users benefited from the three-month buffer. On average, PCI reviews were completed 1.1 months after the scheduled review date. Only Senegal completed some reviews ahead of schedule. All PCI users utilized the flexibility of the review schedule during the pandemic with three PCI programs (Cabo Verde, Senegal, and Serbia) successfully completing all the scheduled reviews in 2020 using the buffer period. However, two countries did not complete a review by the scheduled date and triggered an IPU—Seychelles in August 2020 (after non-completion of the 5th review) and Rwanda in September 2020 (after non-completion of the 2nd review). Rwanda successfully completed the subsequent review after the IPU, bringing the PCI program back on track. But Seychelles' PCI was automatically terminated upon non-completion of a review for a period of 12 months.

[17] This was mainly driven by targets related to total domestic credit set for one PCI user (Seychelles).

Figure 5. Performance Under the PCI and the PSI

Implementation rates of fiscal and debt QTs among GRA-only PCI users are higher than among other GRA arrangements…

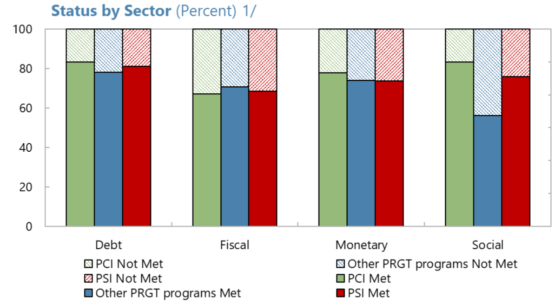
GRA-Only Countries: Quantitative Targets / Performance Criteria Status by Sector (Percent) 1/



Sources: MONA and IMF staff calculations.
1/ Include only PCI-supported programs for GRA-only users. Past and existing PCIs among GRA members do not contain social-related QTs. Combined reviews are grouped in the latter review.

… while PRGT-eligible PCI users performed better than their comparators in meeting QTs in nearly all sectors.

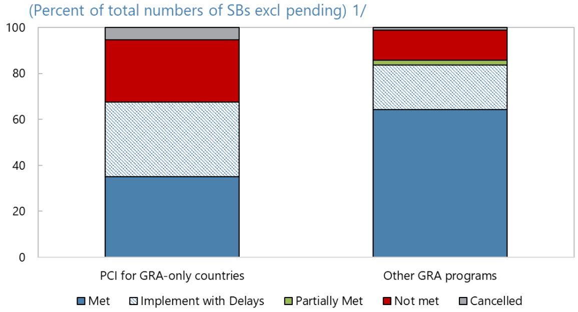
PRGT-Eligible Countries: Quantitative Targets / Performance Criteria Status by Sector (Percent) 1/



Sources: MONA and IMF staff calculations.
1/ Include only PCI-supported programs for PRGT-eligible users. Combined reviews are grouped in the latter review. Does not include ITs except Social Sector.

Implementation of RTs of GRA-only PCI users, albeit some with delays, are comparable to other GRA-supported programs…

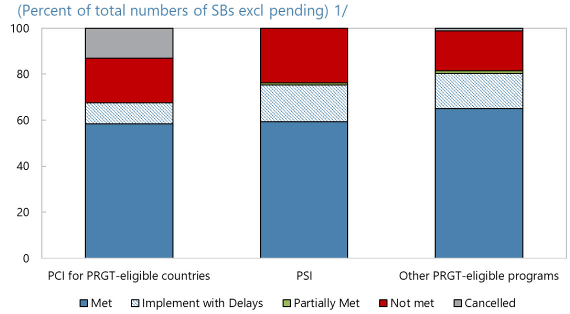
GRA-Only Countries: Status of Reform Targets / Structural Benchmarks (Percent of total numbers of SBs excl pending) 1/



Sources: MONA and IMF staff calculations
1/ This shows the status of all reform measures up to the point of the latest review.

… and those of PRGT-eligible users are broadly in line with their peer arrangements.

PRGT-Eligible Countries: Status of Reform Targets / Structural Benchmarks (Percent of total numbers of SBs excl pending) 1/



Sources: MONA and IMF staff calculations
1/ This shows the status of all reform measures up to the point of the latest review

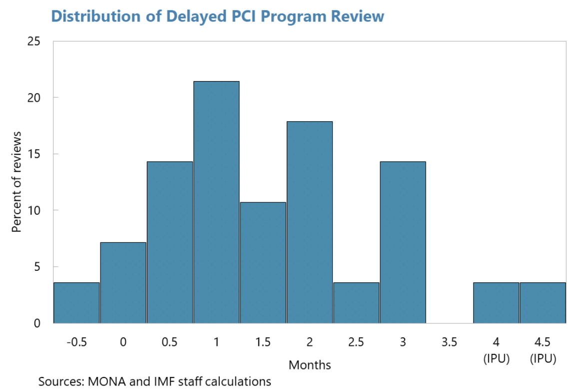
20. Nonetheless, the PCI may not provide sufficient flexibility in certain cases, increasing risks of unnecessary early automatic termination. Since 2017, 16 percent of GRA- and 40 percent of PRGT-supported programs have experienced delays longer than three months. Complications may also arise when moving from a PCI to an arrangement, as the time needed to go to the Board—with a combined staff report that covers both completion of a review under the PCI and the request for a new arrangement—may not fit within the standard three-month buffer period. In some instances, a PCI review was scheduled very close to the next test date for QTs and RTs, potentially creating operational complications.[18] An additional factor is that a PCI is automatically terminated if

[18] When a PCI review is scheduled very close to the next test date for QTs and RTs, a delay is likely to result in the review being completed after the next test date has passed. This should not prevent countries from making use of the three-month buffer window since PCI reviews are tied to a test date for QTs and RTs. However, if the PCI is used concurrently with an SBA, the delay would lead to desynchronized test dates since the next test date becomes "controlling" for completion of subsequent review under the SBA, thus requiring waivers for applicability or nonobservance depending on data availability.

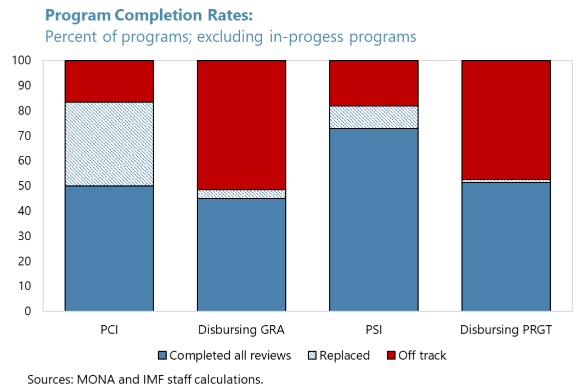
no scheduled review is completed within 12 months of Board approval of the PCI request or of the completion of the last review. As a result, if a review under a PCI with semi-annual reviews is completed on time and then a subsequent review is not completed, the three-month buffer in the review that follows cannot be used (see Box 3, scenario 1). The inability to use the three-month buffer before the PCI is automatically terminated is potentially costly as more than half of PCI reviews experience some delays—over 10 percent of reviews are completed on time, about 36 percent of reviews are completed with a delay of up to one month, about 29 percent of reviews are completed with a delay of 1-2months, and the rest beyond two months (Figure 6).[19]

Figure 6. Review Delays and Program Completion

More than half of PCI programs experienced some delays in the review.



However, with the limited review flexibility amid UCT-quality policy, the PCI's off-track rate is relatively small.

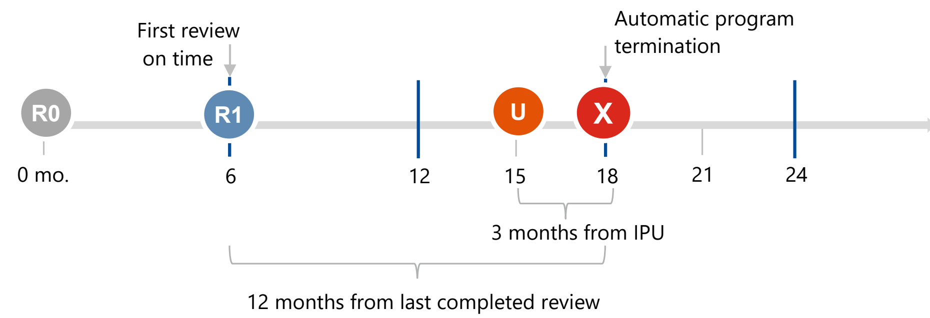


[19] Review delays and program completions are calculated based on PCI reviews that had taken place up to April 2023. PCI programs included in the calculation are Cabo Verde (2019), Rwanda (2019), Senegal (2020), Serbia (2018, 2021), and Seychelles (2017).

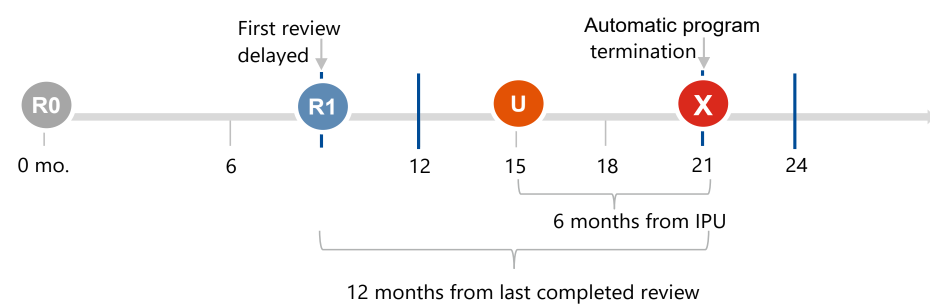
Box 3. Illustrative Scenarios on the PCI Review Schedule

Under the current automatic termination policy, countries cannot always avail themselves of the three-month buffer to complete a review. In the scenarios below, reviews take place every six months in accordance with the schedule set at the time of the PCI request.

Scenario 1: The first review was completed on time (month 6) and the second review (scheduled for month 12) was not completed. An IPU was issued on month 15. In this case, the member only has until month 18 to complete the third review before the PCI is automatically terminated. The member is therefore not able to use the regular 3-month buffer for the third review.



Scenario 2: The first review was completed with delay (month 9) and the second review was not completed. An IPU was issued on month 15. In this case, the member has up to month 21 to complete the third review before the PCI is automatically terminated. The member can therefore use the regular 3-month buffer for the third review.



C. Access to Fund Financing

Expectations

21. At the outset, it was expected that an on-track PCI could expedite access to Fund financing in the event a member develops a BoP need, subject to standard Fund policies on the use of Fund resources (UFR).[20] Two cases were envisaged:

- *Concurrent use.*

[20] However, a simultaneous request of a PCI and financial assistance under the GRA and/or the PRGT (or a request for a PCI while a Fund arrangement is already in place) is not permissible under the PCI policy (see ¶7).

  - The PCI can run concurrently with an SBA/SCF arrangement (i.e., where a PCI user develops a BoP need and seeks Fund financial support).[21] The concurrent SBA/SCF arrangement can be disbursing at approval if the country has an actual BoP need or treated as precautionary. The SBA/SCF is expected to focus on the policy response to the short-term BoP gap, while the PCI should improve the continuity of policy cooperation and maintain the focus on the broader medium-term agenda. Reviews under the SBA/SCF arrangement should coincide with the PCI's fixed review schedule, with quantitative performance criteria (QPCs) and SBs under the SBA/SCF arrangement normally applying to the same variables and measures as the QTs and RTs under the PCI.[22] Modification of the PCI (e.g., specific targets) may be warranted when the changed circumstances prevent meeting the program objectives. If the PCI program is off-track, the approval of the concurrent SBA or SCF arrangement would typically occur when appropriate corrective actions (or sufficient commitments to that end) have been taken.
  - However, the PCI cannot be used concurrently with an ECF/EFF arrangement. While a short-term BoP need that emerges after the PCI approval could be addressed by a concurrent SBA/SCF arrangement, a protracted or medium-term BoP problem should be addressed under an ECF/EFF arrangement.[23] A concurrent PCI would be incongruent with significant structural weaknesses and medium- to long-term financing needs requiring deeper adjustment.[24]

- *Sequential use*. A country could decide to cancel the PCI and request a Fund arrangement (e.g., SBA or SCF). In such a situation, the country would be expected to take corrective actions for slippages, such as prior actions, under the PCI program to obtain support under an SBA or SCF arrangement if these measures remain critical to the objectives of the new program supported by the Fund arrangement. For financing instruments that are not used concurrently with a PCI, prior support under a PCI could reduce the time normally required to design and agree on a program supported by a Fund arrangement, where their broad objectives carry over from the

[21] This is akin to the PSI policy, which allows the concurrent use of the PSI with the SCF.

[22] As reflected in the Board decision and Board paper establishing the PCI, for the duration of the concurrent use of a PCI with a Fund arrangement, program modalities (including conditionality and monitoring) under the arrangement would match those established under the PCI (¶19 of Adequacy of the Global Financial Safety Net—Proposal for a New Policy Coordination Instrument). The sameness of program modalities prevents situations where a program could be on track under one instrument, but off track under the other, with resulting conflicting signals. At the same time, however, questions of duplication arise when the same program is supported concurrently by two different instruments.

[23] A protracted BoP problem for which the ECF may be appropriate exists when the resolution of macroeconomic imbalances is expected to extend over three to five years. If, by contrast, a stable and sustainable macroeconomic position is expected to be established within a timeframe of two years or less and the member has a short-term BoP need, the SCF would be the appropriate arrangement. Similarly, the EFF is intended to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member's BoP can only be achieved over an extended period not exceeding four years (see Decision No. 4377-(74/114)).

[24] Similarly, the PSI cannot be used concurrently with the ECF, which is designed for countries with protracted BoP problems, whereas the PSI is designed for countries with a sustainable macroeconomic position without financing needs (Footnote 24 of A New Architecture of Facilities for Low-Income Countries).

PCI and there is a clear understanding of what concepts, variables, and measures should be subject to conditionality.

22. Concurrent use of the PCI with Fund emergency financing instruments was also envisaged. Should a country with an on-track PCI experience an urgent short-term BoP need, the member can request financing under the RFI/RCF, subject to meeting qualification criteria under these instruments, without the need to cancel the PCI. The RFI/RCF request would typically be on a standalone basis but could also be combined with a PCI review. Subsequent PCI reviews would follow up on any policy commitments made under the RFI/RCF request.

23. The PCI is also a qualifying UCT-quality instrument for purposes of an RSF arrangement. In cases where a member country requests an RSF arrangement and has no need for GRA or PRGT financing, the PCI can serve as the accompanying UCT-quality program. The duration of the RSF arrangement would be expected to coincide with the duration of a new PCI (when the two are requested together) or with the remaining duration of an existing PCI (when the RSF arrangement is requested at the time of a review under the PCI). Upon termination, cancellation, or expiration of the accompanying PCI, the RSF arrangement is automatically terminated. Another important characteristic distinguishing the RSF from other Fund financing is that it helps members address risks to prospective BoP stability stemming from select macro-critical longer-term structural challenges, and financing under the RSF is not for filling residual BoP gaps under a concurrent Fund arrangement—i.e., the UCT-quality program must be fully-financed without inclusion of any RSF financing.[25] In addition, the exceptional access (EA) frameworks for GRA and PRGT financing do not apply to RST financing.

Assessment

24. Concurrent use of the PCI with Fund financial instruments has served countries well. To date, the PCI has been used concurrently with the RFI/RCF in four countries and with the SBA/SCF and RSF in one country each (Table 2). Interviews with PCI users and survey results suggest that the experience has been very positive:

- ***RFI/RCF***. The overwhelming majority of survey respondents (86 percent) see concurrent use with emergency financing as one of the design features that makes the PCI attractive. PCI users valued the availability of emergency financing during the COVID-19 pandemic as it allowed them to rapidly address an urgent short-term BoP need while ensuring policy continuity in the medium-term reform agenda through the PCI.
- ***SBA/SCF***. To date, Senegal has used the PCI concurrently with a blended SBA-SCF arrangement. However, nearly three-quarters of survey respondents identified concurrent use as an attractive

[25] While the RSF arrangement accompanies a UCT-quality program, "the latter must stand on its own". This means that the reforms and any financing under the UCT-quality program must be assessed as sufficient to address the financing need and to ensure the medium-term external viability under the baseline scenario, under the GRA, or make "significant progress" under the ECF of the PRGT. See ¶32 of Proposal to Establish a Resilience and Sustainability Trust.

feature of the PCI.[26] By maintaining an on-track PCI when the BoP need is of a short-term nature, concurrent use is seen as alleviating concerns of sending a negative signal stemming from the termination of the PCI upon an SBA/SCF arrangement request. Case studies also suggest that some PCI users would be reluctant to cancel a PCI they are familiar with and that has served them well (Annex III). In general, countries with a PCI value the option of obtaining approval of a precautionary SBA/SCF arrangement while maintaining the existing PCI when risks to the outlook rise. Should an actual BoP need materialize, access to Fund financing would be immediate, and quicker and less cumbersome than under a situation where the country would need to terminate the PCI and request an SBA/SCF arrangement.[27] Concurrent use was not seen as diluting the signaling effect even among countries that stated a preference for sequential use. The empirical evidence from Senegal confirms this view (Box 1). In addition, concurrent use preserves the continuity of the RSF for those PCI users that have also had the RSF arrangement but later need to request an SBA/SCF arrangement. This is because under the current RST policy, the RSF arrangement automatically terminates when the accompanying UCT-quality instrument terminates or is cancelled.

- ***RSF***. The experience of concurrent use with the RSF is too short to make an assessment—there is only one case (Rwanda) that was approved at end-2022. However, 93 percent of survey respondents were very supportive of the option to request an RSF arrangement concurrently with a PCI. Staff expects increasing interest in the PCI among members that do not need to address short- to medium-term BoP problems associated with financing from the GRA and PRGT but are seeking support under the RSF.

[26] The fact that only one country used the PCI concurrently with Fund arrangements does not necessarily indicate limited interest in concurrent use as the global and domestic context needs to be factored in. Notably, the pandemic led four out of five PCI users to request concurrent emergency financing. Two of these countries (Cabo Verde and Seychelles) later requested Fund arrangements given emerging BoP needs. Serbia cancelled the PCI and transitioned to an SBA treated as precautionary.

[27] PCI users retaining the PCI and obtaining approval of a precautionary SBA/SCF would have immediate access to financing in the event of an actual BoP need, thus reducing procedural requirements. Moreover, the on-track PCI could expedite approval of the new SBA/SCF arrangements.

Table 2. Concurrent Use of the PCI

Country 1/	PCI Approval Date	Concurrent Use of the PCI with EF, SBA/SCF, or RSF			
		Fund financing	Approval Date	Access (Percent of quota at approval)	Ongoing
Cabo Verde	7/15/2019	RCF	4/22/2020	100	One-off disbursement
Rwanda	6/28/2019	RCF	4/2/2020	50	One-off disbursement
		RCF	6/11/2020	50	One-off disbursement
Rwanda	12/12/2022	RSF	12/12/2022	150	Yes
Senegal	1/10/2020	RFI/RCF	4/13/2020	100	One-off disbursement
		SBA/SCF 2/	6/7/2021	180	No
Seychelles	12/13/2017	RFI	5/8/2020	100	One-off disbursement

1/ As of May 2023
2/ Senegal SBA/SCF was initially approved for 18 months and was subsequently extended by 2 months

25. Nonetheless, there is a need to clarify some operational and conceptual issues regarding concurrent use of the PCI with an SBA/SCF arrangement.

- Duplication of conditionality as well as the ability to demonstrate a commitment to the same reform agenda and catalyze donor financing (both programs require financing assurances) can make it difficult in practice to differentiate the focus of the SBA/SCF (short-term) and the PCI (medium/long-term).[28]
- For presumed blenders and countries that supplement PRGT resources with GRA resources, the PCI could potentially be used concurrently with a blended SBA-SCF arrangement, and the RSF arrangement, thus resulting in the combination of four instruments. This could increase the risk of desynchronized test dates in the event of delays and potentially dilute signaling to donors and market participants.[29]

26. There is also a need to clarify issues regarding concurrent use of the PCI with the RSF and staff proposes to address these at the interim RST review (planned for April 2024) to allow for a holistic treatment across UCT instruments. Under the current RST policy, the RSF arrangement would be automatically terminated if a country opts to cancel the PCI to switch to an SBA/SCF arrangement (or any other Fund arrangement) or if the PCI were to terminate or expire.[30] This raises an issue of avoiding unwarranted interruption of financing under an RSF arrangement when a country transitions from a PCI (used concurrently with an RSF arrangement) to a Fund

[28] Note that the signaling effect of an SBA and a PCI should be broadly similar, as both instruments are of UCT quality. The PCI provides for a more regular signal through its fixed review schedule.

[29] Desynchronization of test dates could arise from delays as reviews under the SCF and PCI are tied to a test date while the latest QPCs are "controlling" under the SBA. Strict adherence to the fixed PCI schedule should ensure that reviews under the PCI and the SBA are always based on the same test date, even if one review (the maximum allowed under a semi-annual review schedule) is not completed.

[30] See Section II, ¶1 (4) of the RST instrument and ¶50 of Proposal to Establish a Resilience and Sustainability Trust.

arrangement. Moreover, while the RST is not intended to address short- to medium-term financing problems associated with lending from the GRA and the PRGT and safeguards for financing under the RST mitigate risks of such use, including through access caps and the requirement of a concurrent on-track UCT-quality instrument, there is an issue of whether these mitigants suffice. However, since these issues are not unique to the PCI, it is proposed that they be taken up holistically at the time of the interim RST review.

REFORM PROPOSALS

The PCI has met the goals and expectations set out at its establishment in 2017, although a few operational improvements can enhance its effectiveness. This section discusses three proposals aimed at: (i) enhancing the flexibility of the review schedule while ensuring strong and credible signaling; (ii) improving the modalities for concurrent use of the PCI with the SBA/SCF; and (iii) streamlining the Fund's toolkit.

A. Enhancing Flexibility of the Review Schedule

Proposals: *(i) Modify the PCI automatic termination period to ensure it does not preclude use of the three-month buffer for the completion of PCI reviews; (ii) allow a review to be completed within 30 days beyond the regular three-month buffer for cases when a country is transitioning to a Fund arrangement; and (iii) provide guidance to ensure sufficient time between the fixed review date and the next test date, data permitting.*

27. Staff proposes modifying the PCI policy and providing further guidance to enhance flexibility of the PCI's review schedule as follows:

- **It is proposed to retain the three-month buffer and modify the automatic PCI termination period to ensure that automatic termination does not preclude members from using the three-month buffer.** For PCI programs with semi-annual reviews, the termination period would be extended from the current 12 months to 15 months and would be computed from the *scheduled* review date of the last completed review (or from Board approval of the PCI). For PCI programs with a more frequent review schedule, the automatic termination period will be reduced proportionally (and will not be shorter than 12 months). Specifically, the PCI program would automatically terminate upon the lapsing of 12 months plus the buffer period available for the completion of the review, which has a duration based on the PCI review frequency (e.g., 13.5 months for PCI quarterly reviews). For PCIs on a semi-annual schedule, the 15-month automatic termination would ensure that countries will be able to use the three-month buffer regardless of whether they completed the last review on time or with a delay.
    - Currently, non-completion of reviews for a 12-month period since the Board date of the most recently completed review or since Board approval of the PCI leads to automatic termination of the PCI. Hence, countries under a semi-annual review schedule may be unable to use the three-month buffer in some cases (see Box 3, scenario 1) to implement policies and/or bring the program back on track. Given the average review completion delay

of 1.1 months under PCIs, not allowing a PCI user to make use of the three-month buffer in a review following non-completion of the previous review could prove costly as it may result in an unnecessary automatic termination of the PCI and send a *premature* off-track signal. The lack of a buffer (following non-completion of the previous review) could also put pressure on the Fund to complete a review by the scheduled review date given the potential negative consequences of an "off" signal.

  - At the same time, to further bolster the signaling value of the PCI and as an effective safeguard, staff proposes to specify in the PCI policy decision that the automatic termination period be computed from *the scheduled review date of the last completed review* (or Board approval), instead of from the date of the last completed review (or PCI approval).[31] This means that, de facto, a PCI program with a semi-annual review schedule—the standard review frequency that has been set for past and present programs—would automatically terminate if a country fails to complete two reviews consecutively under this proposal, just as it would have been under the current 12-month automatic termination policy.[32]

- **It is also proposed, in limited circumstances, to allow a review to be completed within 30 days beyond the regular buffer period.** This additional 30 days ("grace period") to complete a PCI review would be available where the PCI is on track and a member expresses its intention to make joint requests for the simultaneous completion of a PCI review and approval of a new Fund arrangement, and to notify the Fund of its decision to cancel the PCI. This proposal minimizes the number of Board meetings and seeks to accommodate administrative challenges. This additional 30-day grace period would apply irrespective of the reduction of the three-month buffer period based on the frequency of reviews (i.e., it is the same whether the PCI is subject to semi-annual or quarterly reviews).

  - For the 30-day grace period to apply, a staff-level agreement (SLA) on the completion of the PCI review and request for a new arrangement must have been reached and announced within the buffer period—i.e., three months of the scheduled review date for semi-annual reviews—to help signal the authorities' commitment to implement the program as well as maintain the regularity in the signaling of the PCI.[33]

  - If the buffer period as noted above has expired and the Board meeting on completion of a PCI review and a request for a new arrangement cannot be held within the additional 30-day grace period, then the PCI review can no longer be completed (and an IPU needs to be

[31] More concretely, under the scenarios in Box 3, the current policy counts the 12-month termination period starting from month 6 in scenario 1 and month 9 in scenario 2. Hence, the PCI automatically terminates in month 18 and month 21, respectively. Under this proposal, the 15 months will be counted starting from month 6 in both scenarios 1 and 2. Therefore, the automatic termination will be triggered in month 21 in both scenarios.

[32] In the case of quarterly reviews, the proposal implies that the PCI would be automatically terminated if a country fails to complete four consecutive reviews, just as it would have been under the current 12-month automatic termination policy.

[33] The new arrangement can be either precautionary or disbursing. Regarding financial assistance from the GRA and PRGT, the PCI policy only requires that countries are not seeking such assistance at the time of the PCI request (see ¶1). Hence, the completion of PCI reviews will not be affected by the emergence of short-term BoP needs after PCI approval that require Fund financing under an SBA or SCF arrangement.

issued if the preceding review was completed) or the PCI will be automatically terminated (if an IPU has already been issued for the previous review).[34] The potential impact on the PCI's signaling value from the additional 30-day grace period is expected to be limited particularly given the very restricted set of circumstances to which it applies. The requirement that an SLA be reached within the buffer period also safeguards against incentives to misuse the proposed 30-day grace period.

- **Further guidance will be provided to encourage sufficient time between the fixed review date and the next test date**. In maintaining the three-month buffer, staff acknowledges that some past PCI programs were designed with review test dates falling very close to the next test date (see Box 4). This has not prevented PCI countries from using the three-month buffer period (following the scheduled review date) and completing the current review as each review is linked to a particular test date and is associated with its own set of targets (unlike GRA arrangements, where the most recent test date is controlling for each review).[35] Nevertheless, to minimize any potential complication with the scheduled PCI review dates, staff will recommend that, data-permitting, the test date under PCIs with a semi-annual review schedule should be scheduled at least three months from the preceding fixed review date.

28. These proposals would enhance the flexibility of the review schedule while minimizing distortions. They preserve the regular on/off signaling of the PCI; ensure that countries will always be able to make use of the three-month buffer, thus allowing some additional time to bring the program back on track; and limit distortions since modest delays in completion of consecutive reviews would not lead to automatic termination. Similarly, allowing an additional one-month beyond the regular three-month buffer for a PCI user that is moving to a Fund arrangement under prescribed circumstances as described above will ensure a smoother transition and reduce administrative burdens with minimal impact on the signaling value of the PCI. These proposals, thus, are superior to the possibility of increasing the duration of the buffer or allowing the review schedule to be updated, which would remove the fundamental feature of regular "on/off" signaling and tilt the instrument toward potentially excessive lags in completing timely reviews.

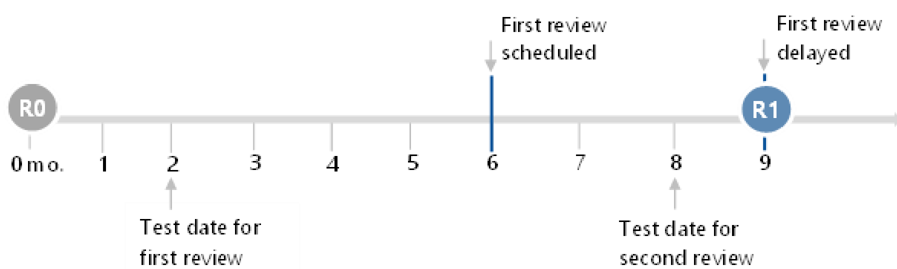
[34] The updated PCI guidance note will highlight this risk and clarify that this one-month grace period should be used to accommodate minor administrative and operational constraints and only if it is reasonably certain that the Board discussion on a completion of a PCI review, cancellation of the same PCI, and request for a new arrangement would be held within the one-month grace period. If there is uncertainty about the request for a new arrangement, the PCI review should be completed within the regular three-month buffer and the request for a new arrangement be made at a later date.

[35] However, as explained in ¶25, delays in completing reviews under concurrent PCI-SBA use could lead to desynchronized test dates since the most recent test date would become "controlling" for the SBA.

Box 4. Illustrative Scenario on Test Dates

Since a semi-annual PCI review can be completed within a three-month buffer, there can be instances where a review is completed after the test date of the next review if that test date falls very close to the fixed review date of the preceding review. For instance, in the illustrative scenario below, the PCI has a semi-annual review schedule, with the first review scheduled for month 6. The test date for the first review is set for month 2 and the test date for the second review is scheduled for month 8. The first review is completed with a three-month delay (in month 9). In this scenario, the test date for the second review has already passed when the first review is completed.

In this scenario, under the proposal, staff will provide guidance that, data availability permitting, the test date for the second review should fall at least after month 9 (and the test date for the first review should be scheduled accordingly such that the test dates for future reviews would be normally six months or less apart). This will ensure that the first review will be completed (including the three-month buffer period) before the test date for the second review, even if the first review is completed with delay.



B. Refining Modalities for Concurrent Use of the PCI with the SBA/SCF

Proposals*: (i) Require staff reports to explain the rationale of concurrent use of the PCI with the SBA/SCF at the approval of the SBA/SCF arrangement and, if the arrangement exceeds 12 months in length, at subsequent reviews; and (ii) clarify that the duration of the SBA/SCF arrangement can extend beyond the end of the existing PCI.*

29. To address the operational and conceptual issues involved in the concurrent use of the PCI with the SBA/SCF, staff proposes two measures to clarify the modalities of use.

- **It is proposed to require staff reports to explain the rationale of concurrent use at the approval of the SBA/SCF arrangement and, if the arrangement exceeds 12 months in length, at subsequent reviews**. This should address concerns about differentiating the focus of the SBA/SCF (short-term) and the PCI (medium/long-term) as well as the congruence of the SBA/SCF with the review-based approach and fixed review schedules of the PCI.
  - For countries with a PCI in place, the staff report on the request for completion of the PCI review that is issued when approval of the SBA/SCF arrangement is requested would be required to explain the rationale for retaining the PCI, weighing the associated benefits and limitations. Concurrent use of the PCI with the SBA/SCF would be expected in cases where the BoP problem is assessed to be short term. That is, country teams would be strongly encouraged to consider concurrent use only when the actual or potential BoP need is assessed to span 6-12 months.

- While longer durations would not be precluded, as under the current PCI policy, they would require explanation as to the appropriateness of concurrent use versus a stand-alone arrangement. For durations exceeding 12 months, the staff report on the PCI review issued for a member that is requesting approval of an SBA/SCF arrangement, as well as all subsequent staff reports for reviews under the PCI, would also be required to explain the continued appropriateness of concurrent use (Box 5).

- **The PCI guidance note will clarify that the duration of the SBA/SCF arrangement can extend beyond the end of the existing PCI**. It will make clear that the duration of the concurrent SBA/SCF arrangement would depend on the length of financing and adjustment needs and would not necessarily be tied to the duration of the PCI.

    - In the case of an SBA/SCF arrangement treated as precautionary, the guidance note would acknowledge the need for continued insurance in times of heightened uncertainty that could extend beyond the PCI end date.

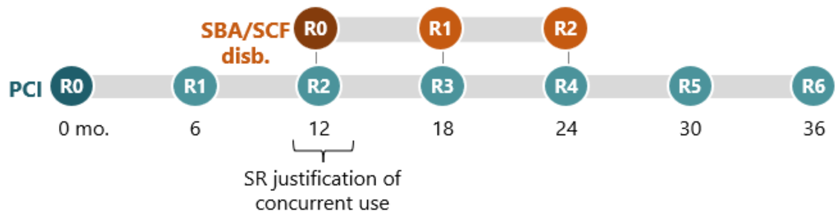
    - In the case of an SBA/SCF arrangement not treated as precautionary, the guidance note would clarify that an SBA/SCF arrangement in place to address a short-term BoP need could run beyond the PCI end date. This could be particularly relevant in instances where the BoP need arises once the PCI is well underway.

    - Clarifying that the concurrent SBA/SCF arrangement may extend beyond the end of the PCI would align the operational implementation of the PCI with the PSI policy. This takes on added importance considering staff's proposal to eliminate the PSI.[36] The PCI guidance note would also clarify that, with respect to successive PCIs, if the concurrent SBA/SCF arrangement ends after the PCI, approval of a new PCI would take place only after the expiration or cancellation of the SBA/SCF arrangement, since the PCI requires the absence of a BoP need warranting Fund financial assistance at the time of approval (Box 5, scenario 3).

[36] In all three cases of concurrent PSI-SCF use to date—Mozambique (PSI, 2013-16 and SCF, 2015-17), Rwanda (PSI, 2013-16 and SCF, 2016-18), and Tanzania (PSI, 2010-13 and SCF, 2012-14)—the SCF expired after the PSI.

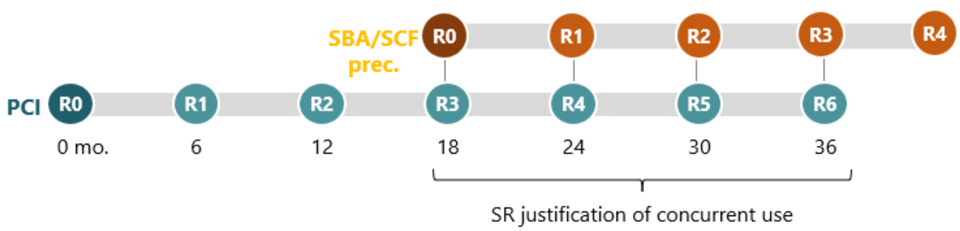
Box 5. Illustrative Scenarios on Concurrent Use of the PCI With the SBA/SCF

Scenario 1. A short-term actual BoP need arises a year after the approval of a three-year PCI. A 12-month SBA/SCF arrangement is approved. The staff report on the request for completion of the PCI review that is issued when approval of the SBA/SCF arrangement is requested would be required to justify concurrent use versus a standalone SBA/SCF arrangement.

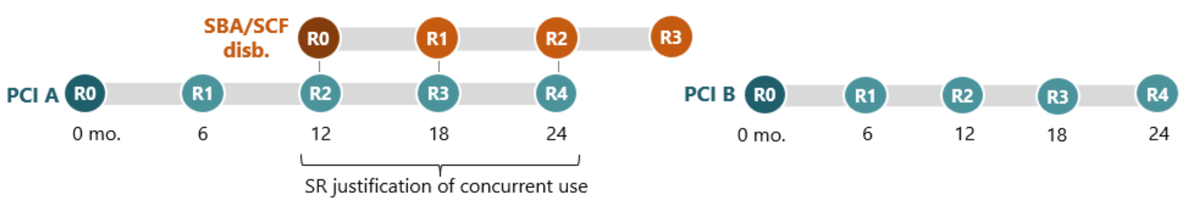


Scenario 2. A short-term potential BoP need arises at the mid-term of a three-year PCI. A 24-month SBA/SCF arrangement treated as precautionary is approved which extends beyond the PCI period. The staff reports on the request for completion of the PCI review that is issued when the approval of the SBA/SCF arrangement is requested and subsequent reviews are required to justify concurrent use.

Scenario 3. A short-term actual BoP need arises at the mid-term of a two-year PCI. An 18-month SBA/SCF



arrangement is approved that extends beyond the PCI period. The staff reports on the request for completion of the PCI review that is issued when the approval of the SBA/SCF arrangement is requested and subsequent reviews are required to justify concurrent use. A successor PCI is approved after the end of the SBA/SCF arrangement.



C. Streamlining the Fund's Toolkit

Proposal: *Eliminate the PSI.*

30. Staff proposes eliminating the PSI given the lack of demand and the universal switch of PSI users to the PCI. The PSI is available to PRGT-eligible countries that have a policy framework focused on consolidating macroeconomic stability and debt sustainability and deepening structural reforms to promote growth and poverty reduction (so called "mature stabilizers"). The PCI does not have such qualification requirements. Nonetheless, past PSI users view the instruments as comparable, but with the PCI offering greater flexibility and being perceived as a path toward emerging market status. The lack of demand for the PSI and the more attractive design features of the PCI, which have provided greater flexibility for the conduct of program reviews, argue for streamlining the signaling instrument toolkit. As such, the elimination of the PSI is not expected to have any negative impact on PRGT-eligible members nor constrain in any way their access to Fund resources. Eliminating the PSI in the context of this review would also ease the workload on the 2024–25 Review of the Fund's Concessional Facilities and Financing.

ENTERPRISE RISKS AND RESOURCE IMPLICATIONS

31. This section discusses enterprise risks related to and resource implications of staff's proposals: eliminating the PSI; enhancing the flexibility of the review schedule; and refining modalities of concurrent use with the SBA/SCF.

A. Risks to the Fund Without Proposed Reforms

- **Business risks (member engagement and analytical accuracy).** Not enhancing the flexibility of the review schedule would increase the risk of unnecessary automatic terminations of some PCIs. Such automatic terminations would make the PCI somewhat less attractive and discourage members from engaging with the Fund in cases where Fund engagement can helpfully signal the member's commitment to reforms and catalyze other external financing. The inability to use the three-month buffer period before automatic termination of the PCI to implement overdue policies could also send a premature off-track signal, discouraging financing from official and private creditors and hindering efficient use of GFSN resources. Without further refinement of concurrent use of the PCI with certain Fund financing instruments, coordination and operational challenges may arise, diluting the signaling effect of the PCI. In addition, not eliminating the PSI would retain a somewhat redundant instrument, thereby resulting in duplication in signaling instruments in the Fund's toolkit.

B. Risks to the Fund With Proposed Reforms

- **Business risks (analytical accuracy).** Greater flexibility could be seen as undermining the on/off signaling of the fixed review schedule. However, potential adverse effects are likely to be very limited given the ringfencing of the conditions under which flexibility can be applied.
- **Operational risks (process).** Concurrent use of the PCI with potentially three arrangements (SBA/SCF/RSF) could give rise to operational complications. However, this risk is mitigated by the Fund's deep experience with blended arrangements. Also, requiring justification for concurrent use of the PCI with the SBA/SCF is expected to limit cases when the concurrent use may risk diluting the signaling and effectiveness of the PCI.
- **Reputational risks.** Although the elimination of the PSI would leave PRGT-eligible countries without the signaling benefit provided by its qualification requirements, that risk is negligible given that the PCI is seen as an upgrade with added flexibility. Deferring the discussion on issues related to RST policy to the 2024 RST interim review could create the perception that the RST

policy is overly rigid. However, given the short period between the completion of this review and the RST interim review planned for April 2024, the probability of such costs is expected to be small.

C. Resource Implications and Review of the PCI

32. Operational risks (human capital). The proposals in the paper are expected to be implemented within existing budgetary envelopes, with limited impact on human resources. The forthcoming updated operational guidance note for the PCI should support the effective implementation of the proposals with minimal cost since most changes require only slight modifications of existing policies. The elimination of the PSI would not have any resource implications, while the proposals on concurrent use of the PCI with the RSF are proposed to be assessed only at the time of the 2024 interim RST review. On the other hand, the proposal to enhance the review flexibility when transitioning from the PCI to a Fund arrangement could help reduce the likelihood of having two Board meetings—one to complete the PCI review and another to approve a request for a new Fund arrangement—in a short period of time. The proposal would possibly reduce demand on staff's time and lead to a better allocation of resources. Finally, the proposal on demonstrating the appropriateness of concurrent use of the PCI with an SBA/SCF arrangement is expected to have a marginal impact on the staff's workload as it would only entail a brief description in the staff report. Nonetheless, should the proposed changes result in a significant increase in demand for the PCI, this would also result in higher staffing needs in area and functional departments that, consistent with limitations on budget space, would need to be absorbed in the existing resources envelope through reprioritization.

33. It is expected that the application of the PCI decision will be reviewed by the Executive Board at 5-year intervals, or earlier if warranted. This would allow enough time to provide a basis to assess the implementation of the reforms and the effectiveness of the instrument.

ISSUES FOR DISCUSSION

34. Directors' views and comments are requested on the following issues:

- Do Directors agree that the PCI has served the membership very well, succeeding in meeting the goals and expectations set out when it was established and helping catalyze financing from other official and private sources?
- Do Directors support streamlining the Fund toolkit by eliminating the PSI as discussed in ¶30?
- Do Directors support the proposed reforms to enhance flexibility of the PCI review schedule as discussed in ¶27?
- Do Directors concur with the proposed operational modalities to require explanation for concurrent use of the PCI with the SBA/SCF as discussed in ¶29?
- Do Directors agree with the need to develop an outreach plan to increase awareness about the PCI as discussed in ¶11?

PROPOSED DECISIONS

35. This paper sets forth two decisions for adoption by the Executive Board by a majority of votes cast. Decision I proposes amendments to the decision establishing the PCI (Decision No. 16230-(17/62), adopted July 14, 2017, as amended) to modify the PCI automatic termination period as specified in paragraph 27 and allow a review to be completed within 30 days beyond the regular three-month buffer in specified circumstances as discussed in paragraph 27. Decision II proposes to abolish the PSI by repealing the decision establishing the PSI (Decision No. 13561-(05/85), adopted October 5, 2005, as amended) and deleting references to the PSI in other Fund decisions. The redlined version of the decision establishing the PCI showing the proposed amendments is provided in Annex V for the convenience of Executive Directors.

Proposed Decisions

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

Decision I. Amendments to the Decision Establishing the Policy Coordination Instrument

Decision No. 16230-(17/62), adopted July 14, 2017, as amended, *(*the "PCI Decision") shall be amended as follows:

1. Paragraph 7. b of the PCI Decision shall be amended to read as follows:

"b. Where reviews are scheduled semi-annually, if a scheduled review is not completed within three months from the scheduled review date (hereinafter "buffer period"), the Board will be provided with an interim performance update by staff, normally for information. Thirty days (hereinafter "grace period") will be added to the buffer period only where within the buffer period (i) a staff-level agreement on the completion of the review of the program under the PCI and on the request for a new arrangement has been reached and announced and (ii) a member expresses its intention to notify the Fund of its decision to cancel the PCI and to make joint requests for the completion of the review of the program under the PCI and for approval of a new arrangement, provided that the grace period will be available only for the Executive Board to consider the joint requests referred to in (ii) above. A brief factual statement stating the issuance of the performance update would be published shortly after the issuance of the performance update to the Board, and the performance update report would be published subject to the member's consent. A press release, summarizing staff's views, may accompany a performance update report that is published. Where reviews are scheduled more frequently than semi-annually, the buffer period that, once lapsed, triggers the interim performance update will be reduced proportionally, provided that the grace period will be added to the buffer period in the circumstances specified in this paragraph."

2. Paragraph 20 (b) of the PCI Decision shall be amended to read as follows:

"20. (b) noncompletion of a review in any of the following circumstances: (i) where reviews are scheduled semi-annually, noncompletion of a review for a fifteen-month period, computed from the scheduled review date of the last completed review or from approval of the PCI plus, where applicable, the expiration of the grace period specified in paragraph 7.b above; and (ii) where reviews are scheduled more frequently than semi-annually, noncompletion of a review for a period of twelve months computed from the scheduled review date of the last completed review or from approval of the PCI plus the lapsing of the buffer period and, where applicable the grace period, specified in paragraph 7.b above."

3. Paragraph 22 of the PCI Decision shall be amended as follows:

"22. It is expected that the Fund will review the application of this Decision on a five-year interval or earlier, if warranted."

Decision II. Elimination of the Policy Support Instrument

1. Decision No. 13561-(05/85), adopted October 5, 2005, as amended, establishing the Policy Support Instrument, is hereby repealed.

2. References in other Fund decisions to the Policy Support Instrument are hereby deleted.

Annex I. The PCI and the PSI—A Comparison

	Policy Coordination Instrument	Policy Support Instrument
Introduction	July 2017	October 2005
Objective	Support countries in designing and implementing policies through a fully-fledged macroeconomic program to (i) prevent crises and build buffers, (ii) enhance macroeconomic stability, or (iii) address macroeconomic imbalances. The PCI may serve as a substitute for low-access precautionary arrangements.	Support LICs with broadly stable and sustainable macroeconomic position to consolidate economic performance.
Eligible members	All Fund members.	PRGT-eligible members with strong macroeconomic positions and institutions.
BoP need at approval	Does not require nor is seeking Fund financing.	
Duration	6 months to 4 years.	1 to 4 years, may be extended up to 5 years.
Repeated use	No restrictions.	
Access	No financing but expected to expedite process for requesting an arrangement.	
Repeated use	No limit on the number of successor PCIs.	No limit on the number of successor PSIs as long as the country continues to qualify.
Concurrent use	With SBA/SCF, RFI/RCF, or RSF (not EFF/ECF or other arrangements).	
Cost for members	Follow TA charging policies; according to the current policies, advanced economies usually need to cover administrative costs.	None.
Review schedule	Normally semi-annual; shorter possible. Fixed schedule (with a buffer) to provide regular and uninterrupted signal.	Fixed semi-annual review schedule.
Automatic termination	No completion of a review for a 12-month period.	Non-completion of two consecutive scheduled reviews
Conditionality	UCT-quality, contains standard continuous targets, Quantitative Targets (QTs), Reform Targets (RTs), as well as Prior Actions, as needed.	UCT-quality, contains Quantitative periodic and continuous Assessment Criteria (ACs), Indicative Targets, Structural Benchmarks (SBs) as well as Prior Actions (PAs) as needed.

	Policy Coordination Instrument	Policy Support Instrument
Monitoring of conditionality	Review-based monitoring of QTs and RTs. No waivers if missed, but substantive requirements for monitoring conditionality are the same as under Fund arrangements.	ACs require waivers if missed; review-based monitoring of SBs.
Poverty Reduction and Growth Strategy	PRGS encouraged if poverty reduction is considered critical to program success.	For PSIs with an initial duration exceeding two years, a PRGS should be issued to the IMF Executive Board for completion of the second and subsequent reviews.
Financing assurances	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of the PCI.	Firm financing commitment for next 12 months; good prospects for adequate financing for remainder of the PSI.
Safeguards assessment	Not required but encouraged.	
Misreporting	Tailored misreporting framework applies to PAs, QTs, and ACs.	

Annex II. Survey Results

1. A member survey was launched in March 2023 to seek the authorities' views on the PCI. The survey was circulated to the full membership (190 member countries). The response rate was 18.9 percent, slightly higher than the survey response at the time of the 2009 PSI review. Participation was highest among countries in Europe, followed by Asia and Latin America; 56 percent of respondents identified as EMDEs. Five of the six current and past users of the PCI participated. Three respondents that have used neither the PCI nor the PSI recently expressed interest in the PCI.

2. The PCI is widely seen to be an attractive instrument across various dimensions (Figure AII.1). Respondents broadly agreed that important benefits from using the PCI include a close policy dialogue with the Fund, a commitment mechanism to maintaining macroeconomic stability and improved policy frameworks, facilitating of coordination with other institutions, and a strong catalytic role for mobilizing financing from international financial institutions (IFIs) and the private sector. According to past and current users, the catalytic and signaling roles of the PCI are the most attractive features. While all respondents appreciated the unrestricted access to all members, past and current users further perceived the PCI to be a graduating instrument from Fund arrangements and considered that it helped free up Fund resources by reducing demand for low-access precautionary arrangements.

3. The PCI is perceived to be more appealing than the PSI by most respondents. All respondents saw the PCI as being equal to or more attractive than the PSI, owing to its universal availability and more flexible review schedule. PRGT-eligible PCI users also favored the more diversified user base of the PCI as it helped raise perceptions of their status toward those of middle-income countries.

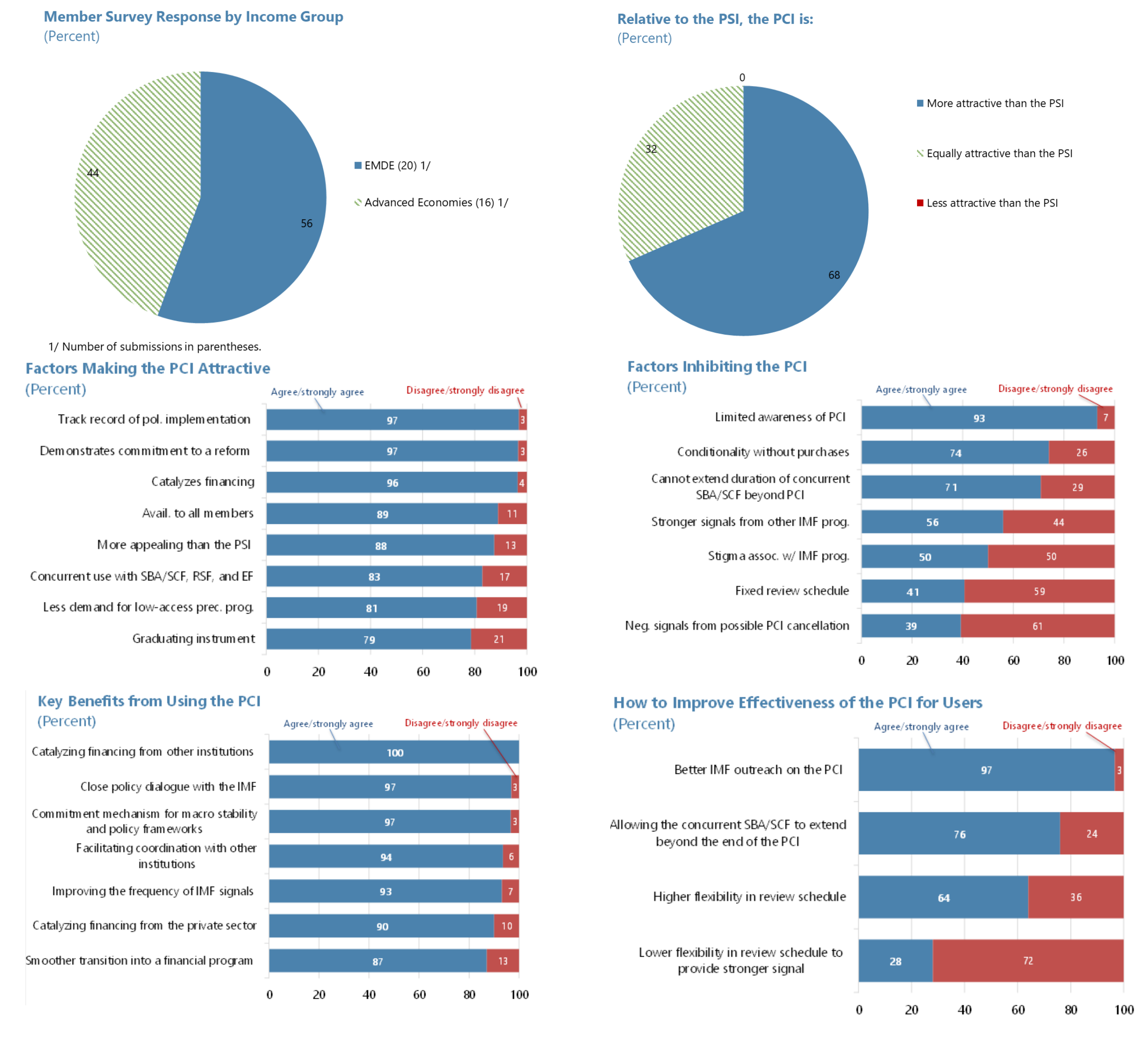
4. Concurrent use with the SBA/SCF, emergency financing instruments, and the RSF are also seen as desirable features. About 70 percent of respondents believed that concurrence with the SBA/SCF is among the factors that make the PCI an attractive instrument, with the greater number of respondents (especially past and current users) suggesting allowing for the concurrent SBA/SCF to extend beyond the end of the PCI to improve the PCI's effectiveness. About 86 percent of respondents appreciated the flexibility in addressing urgent BoP needs through a one-off disbursement under the RFI or RCF without having to cancel the PCI. An overwhelming number of respondents (93 percent) highly valued the possibility to use the PCI as an accompanying UCT-quality instrument to access the RSF.

5. The survey identified some factors limiting PCI take-up.

- For respondents that do not have past or current experience with the PCI, limited awareness of the benefits of the instrument is the main factor inhibiting take-up. To that end, respondents agreed that stepping up outreach among country authorities, the public, and international markets on the benefits of the PCI could go a long way toward improving effectiveness.

- Compliance with program conditionality without Fund financing, followed by restrictions on the duration of any concurrent SBA or SCF arrangement beyond the end date of the PCI, were also cited as factors potentially limiting take-up.
- Neither stigma associated with having a Fund-supported program nor perceptions that donors and investors regard signals from arrangements as stronger than the PCI's stand out as top factors deterring countries from requesting a PCI. There is also limited support to the claim that concerns of a negative signal from a possible PCI cancellation inhibit take-up.
- More than half of respondents did not see the fixed review schedule as a barrier to take-up. However, 64 percent also believed that enhancing the flexibility of the fixed review schedule could help enhance the PCI's effectiveness.

Figure AII.1. Survey Results



Annex III. Select Country Case Studies

Cabo Verde

Context. Cabo Verde made impressive strides in macroeconomic stability through 2008, when the global financial crisis started to unfold. During 2012–15, low economic growth, a significant scaling-up of public investment, and the support of loss-making state-owned enterprises (SOEs) led to a rapid accumulation of public debt. To address these challenges, the authorities embarked on an ambitious reform agenda under their Strategic Plan for Sustainable Development (PEDS). To support those efforts, they requested a program under the PCI for 18 months which was approved by the Executive Board on July 15, 2019.

Objectives. The PCI was requested by the authorities to enhance macroeconomic stability and advance structural reforms to support the authorities' development plan. The PCI was formulated around five policy pillars: (i) strengthening fiscal and debt sustainability; (ii) restructuring SOEs; (iii) enhancing the monetary policy framework and continuing to build reserves; (iv) fostering the financial system stability; and (v) advancing growth-enhancing structural reforms.

Design. The PCI featured no prior action and included 8 quantitative targets (QTs) on fiscal and debt issues (including floor on tax revenues, non-accumulation of external and domestic arrears, and ceilings on external debt and net other liabilities) as well as on net international reserves. The program also included 9 reform targets (RTs) to support the program pillars by enhancing revenue mobilization and expenditure management; accelerating SOEs reforms with an aim to reduce fiscal risks stemming from loss-making SOEs; improving monetary policy transmission; strengthening financial regulation and supervision; and supporting private sector-led growth. It was designed with semi-annual reviews.

Concurrent use. Cabo Verde benefitted from emergency financing under the RCF in April 2020, at the onset of the pandemic (100 percent of quota equivalent to SDR 23.7 million or USD 32.3 million) to meet urgent balance of payment needs generated by the economic impact of the COVID-19 pandemic.

Performance. All but one QT were met at all three reviews. The floor on tax revenue QT was missed in the first and second reviews by small margins. Most RTs were met except the streamlining of exemptions for import duties, VAT and excises as well as the creation of a functional central registry of mobile collateral. The COVID-19 pandemic affected the schedule of review completion with the second review being delayed by over a month and the program being extended from January to March 2021 to provide additional time to conclude the third and final review.

Impact. Macroeconomic performance under the program and prior to the pandemic was strong. Fiscal consolidation, combined with sustained real GDP growth, helped reduced public debt. Meanwhile, the external position strengthened substantially, leading to an increase in international reserves. Macroeconomics performance over 2020–21 was more challenging owing to the effects of the pandemic but the authorities made significant progress on structural reforms.

Post-PCI program. A 36-month arrangement under the ECF was approved in July 2021 (five months after completion of the last review of the PCI) to help shore up international reserves, preserve debt sustainability, increase resilience to shocks, including from climate change, and make growth more inclusive.

Rwanda

Context. Rwanda made considerable progress in sustaining high and inclusive growth and reducing poverty over the last 25 years. Despite numerous shocks, macroeconomic management has been strong and debt risks have remained low. The authorities' National Strategy for Transformation (NST) aimed to make progress toward the SDGs, but its financing was expected to be challenging. To support their policies and NST implementation, the authorities requested a 3-year program supported by the PCI, approved by the Executive Board on June 28, 2019.

Objectives. The PCI program aimed to support implementation of the NST while maintaining macroeconomic stability by: (i) ensuring a medium-term fiscal path that allows for more spending to reach NST goals while maintaining public debt at a sustainable level; (ii) improving domestic resources mobilization, including through broadening the tax base and strengthening tax compliance; (iii) achieving enhanced fiscal transparency; and (iv) implementing the National Bank of Rwanda's new forward-looking monetary policy operational framework.

Design. The PCI featured no prior action and included a monetary policy consultation band and 4 quantitative targets (QTs) on fiscal and debt issues (including ceiling on the deficit and accumulation of domestic and external arrears) as well as on net foreign assets, in addition to the four standard continuous targets. It also included 25 reform targets (RTs) (of which 10 RTs were introduced during the program) aimed at enhancing revenue mobilization and public financial management; strengthening the fiscal framework to allow more investment spending while maintaining debt sustainability; supporting the implementation of the new interest rate-based monetary policy framework; and accelerating financial sector development. It was designed with semi-annual reviews.

Concurrent use. Rwanda benefitted from emergency financing under the RCF with two disbursements in April and June 2020 (totaling 100 percent of quota or SDR 160.2 million or USD 220.5 million) to meet urgent BoP needs generated by the economic impact of the pandemic.

Performance. QTs were generally met except the inflation target at the first and sixth reviews, and the ceiling on the overall fiscal balance (including grants) at the third review. Performance on the structural agenda was mixed with 14 RTs met out of 25 at the sixth review, however primarily due to the pandemic. Due to delays in completing the second review at the onset of the pandemic, an interim performance update (IPU) was issued in October 2020. At the fourth review in June 2021, the authorities requested an extension of the program by one year to make progress on ongoing reforms and policies to support the economic recovery and meet their fiscal consolidation and debt objectives.

Impact. The PCI had been instrumental in supporting the authorities' ability to navigate two major tail-risk events—the global pandemic and the war in Ukraine. Under the program, the authorities recalibrated their fiscal framework to preserve fiscal sustainability while identifying fiscal space for priority spending to support the response to the shocks and initiating the work to identify measures for medium-term fiscal consolidation. The PCI also supported the implementation of the new forward-looking monetary policy framework with progress in building modeling and forecasting capacity. Significant Fund capacity development (CD) was provided to meet these objectives. The established track record and continuous engagement with the Fund helped facilitate access to emergency financing under the RCF and a transition to a new PCI accompanying an RSF arrangement in a timely manner.

Post-PCI program. A new 36-month PCI combined with an arrangement under the RSF was approved by the Executive Board on December 12, 2022.[1] The new PCI continues to support Rwanda's macroeconomic policies and reforms, with a greater emphasis on policies to ensure macroeconomic stability and reforms to mitigate pandemic scars and to build socioeconomic resilience to shocks and insure against downside risks. The RSF arrangement—amounting 150 percent of quota or SDR 240.3 million US$319 million—will reinforce the authorities' efforts to build resilience to climate change by improving the transparency and accountability in the planning, execution, reporting, and oversight of budget resources dedicated to addressing climate change.

Senegal

Context. Senegal's three-year program under the PCI was approved in January 2020. It followed the 2015-19 PSI, which was cancelled by the authorities in early 2019 with only one review left amid presidential elections. The cancellation followed the completion of the first phase of Senegal's development strategy, the *Plan Sénégal Émergent* (PSE I) which spanned 2014–18 the implementation of which was underpinned by the PSI.

Objectives. The PCI was requested by the authorities to maintain a close policy dialogue with the Fund, provide a positive signal to markets and development partners, and ensure a conducive macro-economic environment to support the implementation of the second phase of Senegal's development strategy (PSE II), covering 2019–23. The PCI was articulated around three main pillars: (i) promoting high, durable, and inclusive growth driven by private-sector development; (ii) strengthening macroeconomic stability through prudent fiscal and debt policies; and (iii) ensuring sustainable and transparent management of the hydrocarbon sector.

Design. At approval, the PCI was predicated on an ambitious quantitative and structural reforms agenda, with 9 quantitative targets (QTs) on fiscal and debt issues (including ceilings on public debt, external arrears, the central government's net financing requirement, and floors on net borrowing/lending, tax revenue, and social spending) and 24 reform targets (RTs) to support the programs' pillars by: (i) improving the business climate, investing in human capital, and promoting digitalization and access to finance; (ii) increasing revenue, and improving the efficiency of spending,

[1] The previous PCI (expiring in June 2023) was canceled upon approval of the new PCI.

public financial management, and debt management; and (iii) strengthening the legal and budgetary framework for the oil and gas sector. The PCI was approved with the completion of two prior actions linked to parliamentary submission of the 2020 budget and a second supplementary budget for 2019. It was designed with semi-annual reviews.

Concurrent use. Senegal received disbursement under a blended RFI/RCF in April 2020 at the height of the pandemic (100 percent of quota or SDR 323.6 million or USD 442 million). A concurrent 18-month blended SBA-SCF was approved in July 2021 (140 percent of quota or SDR 453 million or USD 650 million) to support the authorities' pandemic response, promote a broad-based recovery, catalyze additional concessional financing, and strengthen the external position. The PCI was maintained to preserve continuity and positive signaling, as well as to avoid any negative market reactions that could potentially arise from cancelling the PCI. Access under the SBA-SCF was augmented in June 2022 by SDR129.44 million (40 percent of quota) to help cope with the spillovers from Russia's war in Ukraine and bolster food security.

Performance. Program performance was broadly satisfactory, with all six reviews completed on time, despite the challenges raised by the pandemic, Russia's war in Ukraine, heightened regional insecurity, growing social demands amid soaring cost of living, and domestic political tensions. Several QTs were recalibrated as early as the first review in July 2020 to reflect the adverse ramifications of COVID-19, while some RTs were dropped to streamline the reform agenda or reset at a later date to allow more time for completion amid the crisis. Further modifications to QTs were requested in subsequent reviews to accommodate, *inter alia*, more resilient-than-anticipated investment in the oil and gas sector and widening of the SOE perimeter in the DSA. New RTs were also introduced throughout the program period, including upon approval of the concurrent SBA-SCF arrangement, to support efforts in operationalizing the medium-term revenue strategy, reducing tax expenditures, expanding the tax base, advancing progress on public procurement and the PPP law, reducing energy subsidies, and expanding social safety nets.

Impact. Senegal's experience with the PCI was very positive. According to the authorities, the PCI served as a critical anchor for their macroeconomic policies and reforms. It also flexibly catered to the country's needs in difficult times, both through a modification of QTs and streamlining of RTs, and through a quick access to Fund resources under the RFI-RCF and the SBA-SCF during the pandemic and war in Ukraine. Relatedly, the PCI had an important catalytic role, improving investors' perceptions, as illustrated by the PCI's contribution to containing spreads during the pandemic and securing favorable terms on international markets for Senegal's 2021 debt buyback operation. Additionally, there is evidence that the PCI attracted budget support from official multilateral and bilateral creditors, with many donors frontloading financial support at the onset of the pandemic. According to the authorities, the PCI also helped mobilize private sector financing, including through FDI.

Post-PCI program. The 6th and last review under the PCI was completed in January 2023, together with the 3rd and last review under the SBA-SCF arrangement. Following that, a three-year blended EFF-ECF arrangements (350 percent of quota) was approved for Senegal in June 2023 to address protracted BoP needs arising from a persistently challenging external and domestic environment.

The EFF-ECF is expected to support the authorities' reform agenda, as major reforms remained unfinished under the PCI, partly owing to the sequence of adverse shocks that have affected the country over the last three years. The EFF-ECF is articulated around three pillars: (i) building fiscal resilience by putting public debt on a firmly downward trajectory; (ii) strengthening governance; and (iii) fostering a more inclusive and private sector-led growth. The bulk of quantitative conditionality is inherited from the PCI, with only two new QTs added. A three-year RSF arrangement (150 percent of quota) was also approved jointly with the EFF-ECF to support the authorities' efforts to strengthen resilience to climate change.

Serbia

Context. Supported by a three-year SBA treated as precautionary during 2015–18, Serbia succeeded in addressing macroeconomic imbalances and restoring confidence and growth. Progress was also made on structural and institutional reforms, however with remaining challenges to achieve robust, inclusive, and sustainable growth. To continue the strong reform momentum, the authorities requested a 30-month PCI in 2018, which was followed by another 30-month PCI aiming at securing necessary policy support for more resilient growth at the time of heightened uncertainty.

Objectives. The 2018 PCI was requested by the authorities to maintain macroeconomic and financial stabilities and advancing an ambitious structural and institutional reform agenda with key policies in four areas: (i) advancing the pro-growth agenda while safeguarding fiscal consolidation; (ii) strengthening operational frameworks for monetary and exchange rate policies; (iii) enhancing resilience of the financial sector; and (iv) improving the business climate. Against the backdrop of high uncertainty around the post-pandemic recovery, the subsequent PCI approved in 2021 focused on: (i) rebuilding fiscal buffer and anchoring the medium-term fiscal policy framework to a new fiscal rule; (ii) developing domestic capital markets; and (iii) advancing reforms of large and inefficient SOEs and setting the stage for green and sustainable growth.

Design. The 2018 PCI was established on an ambitious policy agenda with 2 prior actions (PAs) to advance tax administration reform and reduce fiscal risks stemming from SOEs, 4 quantitative targets (QTs) on fiscal (including ceilings on the general government's deficit, current primary spending, and domestic and external arrears) and an inflation consultation clause, and 13 reform targets (RTs) primarily focusing on: (i) three fiscal areas—namely reforming the general government's employment and wage system, enhancing public investment efficiency, and advancing tax administration reforms; (ii) strengthening financial stability and public debt management; and (iii) structural policy to reduce fiscal risks related to SOEs and address informality. Three prior actions were additionally set to underpin budget targets, and 8 RTs were added to strengthen fiscal reforms and improve SOE governance. The subsequent PCI approved in 2021 featured one prior action on the budget target, a similar set of quantitative targets and 14 RTs mainly related to fiscal and structural policies. On fiscal, RTs involved adopting the new deficit-based fiscal rule anchored on public debt, strengthening the capacity to monitor and manage fiscal risks, and increasing efficiency and transparency in personnel and wage management. Structural RTs continued to focus on strengthening the governance and management of SOEs. Both PCI were designed with semi-annual reviews.

Concurrent use. No concurrent use.

Performance. During the 2018 PCI, QTs in all five reviews were met, though with a very minor deviation in domestic arrears at the time of the 1st and 2nd reviews. RTs were generally implemented with delays, except for those related to reforms of public employment and wages. The program was broadly on track when the pandemic hit, but its objectives were adjusted to support the economy through the crisis and manage risks posed by the pandemic. Up until the cancelation of the 2021 PCI, all QTs and most RTs were largely met, albeit with some delays for the latter. Missed QTs and RTs were mainly due to exogenous factors reflecting high inflation pressures both globally and domestically.

Impact. Serbia's experience with the PCI was very satisfactory as it helped send strong signals of commitment to sound policy and continuous engagement with the Fund. The authorities saw the flexibility currently provided to the fixed review schedule as being appropriate and emphasized the need to strike the balance between giving more flexibility and its impacts on signaling. The transition from the PCI to the SBA also went smoothly and, with strong and regular communication with investors, the authorities did not foresee any negative signal from cancelling the PCI. Under the two PCI programs, good progress was made in modernizing tax administration, strengthening public investment frameworks, and monitoring and managing fiscal risks. Supported by sound macroeconomic fundamentals and policies under the two PCIs, macro-financial stability has been maintained and Serbia recovered rapidly after the COVID-19 crisis and rebuilt its buffers.

Post-PCI program. After the completion of the last review of the 2018 PCI, the successor PCI was approved in mid-2021 to address high uncertainty about the course of the pandemic. At the time of the 3rd review of the 2021 PCI, risks foreshadowed at the 2nd review materialized. Higher energy prices and domestic electricity production problems have significantly increased BoP and fiscal financing needs. In addition, high global inflation, a weak outlook for trading partner growth, and ongoing spillovers from Russia's war in Ukraine weighed on the outlook despite strong macroeconomic policies. To help address these challenges, the authorities completed the third review under the successor PCI, cancelled that PCI, and requested support under a two-year SBA (290 percent of quota) at the same Board meeting. Both transitions into the new PCI in 2021 and the SBA at end-2022 were facilitated by the previous and then-current PCI. The SBA also took forward the PCI's RTs related to the governance and management of SOEs and the delayed public employment and wage reforms.

Seychelles

Context. After substantial progress toward macroeconomic and fiscal sustainability under three consecutive Fund-supported programs between 2008–17, both authorities and staff viewed that Seychelles did not need Fund's financial assistance. However, as a small open economy dependent on tourism and fishery industry, Seychelles remained vulnerable to external shocks and continued to face challenges to maintain fiscal discipline. To maintain engagement with the Fund and its hard-won economic stability, the authorities requested a three-year PCI in 2017.

Objectives. The authorities and staff expected the PCI to help Seychelles continue a close policy dialogue with the Fund, provide a positive signal to markets, and maintain policy discipline to achieve medium-term sustainability. In particular, the policies under the PCI were designed with the objectives to address and improve: (i) medium-term fiscal sustainability; (ii) public investment efficiency; (iii) fiscal risk of State-Owned Enterprises; and (iv) financial system stability.

Design. The PCI sought to pursue ambitious policy agenda. It was designed with semi-annual reviews. The program includes 4 quantitative targets (QTs) on net international reserves, reserve money (later replaced by a Monetary Consultation Clause in the 3rd review), primary balance, and non-accumulation of external arrears, as well as a memorandum item on nominal public debt. There were also 7 reform targets (RTs) aimed at enhancing public investment efficiency, reducing fiscal risks stemming from SOEs, and improving financial sector stability. A prior action to underpin the budget target and 8 additional RTs mainly related to SOEs and financial sector stability were introduced in subsequent reviews.

Concurrent Use. Seychelles received a purchase under the RFI in May 2020 (100 percent of quota or SDR 22.9 million or USD 31.2 million) following the onset of the COVID-19 pandemic, which had severe economic impact on the economy and led to an urgent BoP need.

Performance. Prior to the pandemic, Seychelles' performance under the PCI had been relatively strong. The first four reviews were completed within the three-month buffer period allowed under the PCI policy. All QTs were met except for the reserve money target during the 2nd review and the primary balance target during the 4th review, both of which were missed by only a small margin. Up until the 4th review, RTs were generally implemented but with some delays.

The pandemic took a heavy toll on Seychelles' economy, with real GDP for 2020 projected at the time of the 5th review to decline by almost 14 percent. Given the high uncertainty in the near-term outlook, staff assessed that the 5th review could not be completed within the three-month grace period from the scheduled review date. An Interim Performance Update (IPU) under the PCI was issued to the Board in August 2020 following the non-completion of the 5th review. Subsequently, the PCI was automatically terminated after non-completion of a review for a twelve-month period since the Board date of the most recently completed review (the 4th review).

Impact. During the first four reviews, the PCI helped facilitate close policy dialogue between the authorities and the Fund as well as helped safeguard prudent macroeconomic policies despite political pressure from the upcoming election cycle. At the time of the 4th review in 2019, the public debt to GDP ratio had fallen to 61.4 percent and was projected to fall below 50 percent by 2022. Although the pandemic had eroded the progress made during the PCI and the previous three Fund arrangements, the established track record and continuous engagement with the Fund helped facilitate access to emergency financing under the RFI in a timely manner.

Post-PCI program. Given the heavy toll of the pandemic on the economy, Seychelles new government, which took office in late October 2020, expressed interest in an extended arrangement under the EFF to help address the medium-term balance of payments need resulting from the pandemic. In June 2021, the Executive Board approved a 32-month extended arrangement under the EFF for 323 percent of quota (SDR 74 million).

Annex IV. Macroeconomic Performance Under the PCI

1. **To assess macroeconomic performance under the PCI, we conducted a comparative analysis using countries with PSIs and Fund arrangements as benchmarks**. All PCIs—except Paraguay and Rwanda, which were approved in late 2022 and have only completed one review—are included in the analysis. For comparison purposes, PRGT- and GRA-supported programs include only those cases where the arrangement was approved the same year as the PCIs under study. As there has been no demand for PSI programs since 2017, PSI programs included in the benchmark exercise are those approved since 2009, covering both recent PCI users and other PRGT-eligible countries. Results should be interpreted with caution, as the sample of PCI users is small, and the global environment under the PCIs and the PSIs is not comparable given that programs under these two instruments did not overlap in time.

2. **Overall, macroeconomic performance of PCIs has been mixed though an assessment is difficult given attendant shocks**. A priori, PCI users are expected to enjoy better starting conditions than users of Fund arrangements since they typically did not have BoP needs.[1] Consistent with this expectation, most PCIs (with the notable exception of Serbia) show robust real GDP growth at PCI approval. However, by the end of the program, all of them ended with comparatively low growth reflecting the severe downturn during the pandemic. At the starting point, inflation was also much lower in countries with PCIs but, in contrast with PSI cases, half of the countries in our sample saw a marked increase by the end of the program likely reflecting the effects of global supply disruptions and pent-up demand after the pandemic. Fiscal primary and external deficits were generally larger and widened particularly among PRGT-eligible PCI users—Serbia was the only GRA user that showed some improvements on both fronts. On the other hand, reserves were generally much higher in PCIs both before and after program approval. Moreover, countries with a PCI and PSI have significantly stronger FDI inflows than those with Fund arrangements.

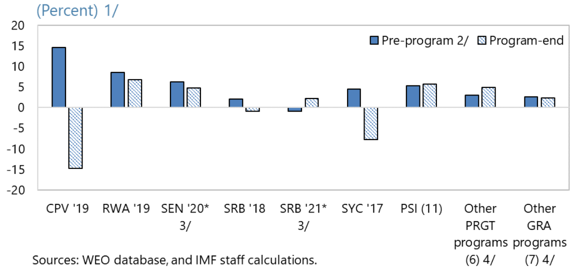
[1] PCIs for countries that seek financing from other sources would require assurances that such externally-supported programs are fully financed in line with the Fund's policy on financing assurances.

Figure AIV.1. PCI Programs: Benchmarking Macroeconomic Outcomes

Growth was more robust among PCI and PSI users, and observed declines were mainly due to the COVID-19 crisis…

Real GDP Growth

(Percent) 1/

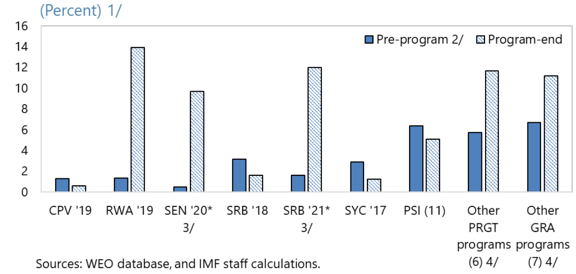


Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is shown.
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e., 2019 for PRGT and 2018 or 2021 for GRA.

… while inflation was lower and declined in countries with PSI and those with PCI approved prior to the pandemic…

Period Average Inflation

(Percent) 1/

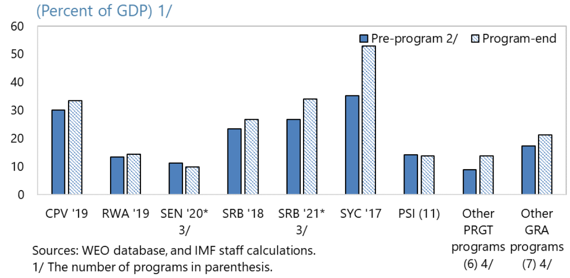


Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is shown.
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e.. 2019 for PRGT and 2018 or 2021 for GRA.

… and reserves increased in most PCI users in line with other programs.

Level of Reserves

(Percent of GDP) 1/

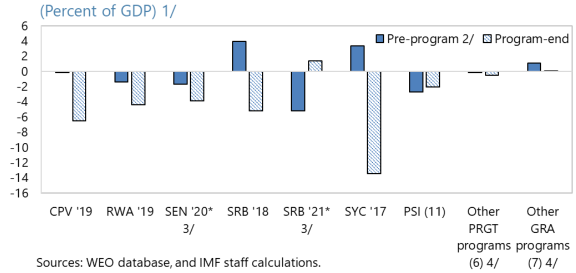


Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is shown.
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e., 2019 for PRGT and 2018 or 2021 for GRA.

Fiscal deficits widened more in most PCI countries, potentially owing to the ability to accommodate a larger policy response during the pandemic…

Fiscal Primary Balance

(Percent of GDP) 1/

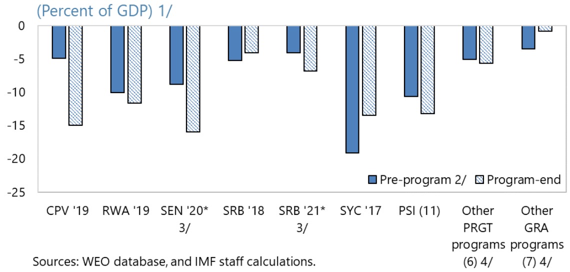


Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is shown.
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e., 2019 for PRGT and 2018 or 2021 for GRA.

… and their current account deficits have also increased.

Current Account Balance

(Percent of GDP) 1/

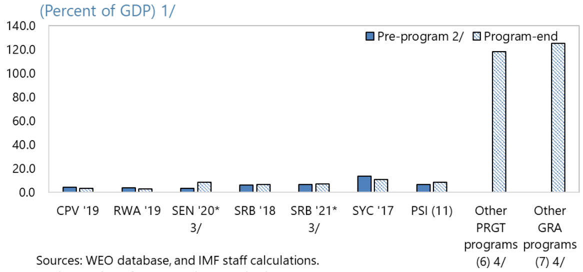


Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is show
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e., 2019 for PRGT and 2018 or 2021 for GRA. n.

FDI increased in PSI and some PCI countries, and the decline observed in some others were smaller than those of other programs.

Foreign Direct Investment

(Percent of GDP) 1/



Sources: WEO database, and IMF staff calculations.
1/ The number of programs in parenthesis.
2/ Pre-program year is year t-1, where t is the approval year.
3/ *Ongoing program, last available year is shown.
4/ Other PRGT and GRA programs include only programs approved in the same year t as PCIs, i.e., 2019 for PRGT and 2018 or 2021 for GRA.

Annex V. Proposed Amendments to the Decision Establishing the Policy Coordination Instrument—Redlined Version

Adequacy of the Global Financial Safety Net—New Policy Coordination Instrument—Framework

General

1. The Fund has established the Policy Coordination Instrument (the PCI) with the overall objective to support countries in designing and implementing policies through a full-fledged macroeconomic program to (a) prevent crises and build buffers, (b) enhance macroeconomic stability, or (c) address macroeconomic imbalances.

2. Upon request, the Fund will be prepared to provide the technical services described in this Decision to members that: (a) at the time of the request for a PCI do not require and are not seeking financial assistance from the General Resources Account ("GRA") or Poverty Reduction and Growth Trust ("PRGT"); and (b) seek to maintain a close policy dialogue with the Fund, through the Fund's endorsement and assessment of their economic and financial policies, under a PCI.

3. A PCI is a decision of the Executive Board setting forth a framework for the Fund's assessment and endorsement of a member's economic and financial policies. A PCI may be approved for a duration of six months to four years, and may be extended up to an overall maximum period of four years.

4. The PCI will be available to all member countries for the purposes outlined in paragraph 1, without further qualification criteria, except members with overdue financial obligations to the Fund's GRA, to the PRGT, or to the Resilience and Sustainability Trust ("RST").

The Member's Program Statement

5. Program Statement. The member's program of economic and financial policies and objectives for the period of a PCI will be described in a Program Statement that may be accompanied by a technical memorandum ("Program Statement"). The initial Program Statement will include: (a) a macroeconomic policy framework, which is based upon a quantified framework, for at least the first twelve months under the PCI; (b) Standard Continuous Targets; and (c) either Quantitative Targets or Reform Targets, or both. Where established, Quantitative and Reform Targets shall be set for at least the first twelve months of the program period. The Program Statement will be updated, as appropriate, in the context of reviews under the PCI.

Approval

6. A member's request for a PCI may be approved only if the Fund is satisfied that: (a) the policies set forth in the member's Program Statement meet the standards of upper credit tranche conditionality; (b) the member's program will be carried out, and in particular, that the member is sufficiently committed to implement the program; and (c) the member does not need and is not seeking Fund financial support from the GRA or PRGT at the time of approval of a PCI.

Program Reviews

7. a. The implementation of the member's program under a PCI will be assessed through program reviews. The Executive Board will establish a review schedule at the time it approves a PCI, and reviews will normally be scheduled at regular intervals of six months or less. A review can be completed only if the Executive Board is satisfied that the member's program is on track to achieve its objectives, based on relevant factors such as the member's observance of Standard Continuous Targets, Quantitative Targets, Reform Targets, as applicable, and its policy understandings for the future; and that conditions (a) and (b) for the approval of a PCI in paragraph 6, above, continue to be met.

b. Where reviews are scheduled semi-annually, if a scheduled review is not completed within three months from the scheduled review date (hereinafter "buffer period"), the Board will be provided with an interim performance update by staff, normally for information. Thirty days (hereinafter "grace period") will be added to the buffer period only where within the buffer period (i) a staff-level agreement on the completion of review of the program under the PCI and on the request for a new arrangement has been reached and announced and (ii) a member expresses its intention to notify the Fund of its decision to cancel the PCI and to make joint requests for the completion of the review of the program under the PCI and for approval of a new arrangement, provided that the grace period will be available only for the Executive Board to consider the joint requests referred to in (ii) above. A brief factual statement stating the issuance of the performance update would be published shortly after the issuance of the performance update to the Board, and the performance update report would be published subject to the member's consent. A press release, summarizing staff's views, may accompany a performance update report that is published. Where reviews are scheduled more frequently than semi-annually, the buffer period that, once lapsed, triggers the interim performance update will be reduced proportionally, provided that the grace period will be added to the buffer period in the circumstances specified in this paragraph.

c. Once the time period established in paragraph 7(b) has passed, the review cannot be completed. The program may be brought back on track by completion of the subsequent scheduled review.

d. PCIs of less than one year would require at least one scheduled review.

8. Implementation of the program will be monitored as informed by Quantitative Targets, Reform Targets, Standard Continuous Targets, Prior Actions, and other relevant information:

(a) Quantitative Targets and Reform Targets.

(i) The Fund shall establish Quantitative Targets or Reform Targets, or both, that will be examined in a review's assessment of program performance.

(ii) Quantitative Targets will apply to clearly-specified quantitative variables that can be objectively monitored and are of critical importance for achieving the goals of the program or for monitoring program implementation.

(iii) Reform Targets will apply to key structural measures that are needed to meet the objectives of the program.

(iv) In order to complete a review, Quantitative or Reform Targets, where included in the program, must be established for the shorter of: (a) the next two scheduled reviews, or (b) the remaining period of the PCI.

(b) Standard Continuous Targets. The Fund shall establish Continuous Targets, that will apply on a continuous basis. Continuous Targets will relate to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices and non-accumulation of external payments arrears, analogous to those provided in paragraphs 3(d) and 3(b)(ii), respectively, of Attachment A of Decision No. 10464-(93/130), adopted September 13, 1993 as amended.

(c) Prior actions. A member may be expected to adopt measures prior to the Executive Board's approval of a PCI or completion of a review.

9. Notwithstanding paragraphs 7 and 8, and subject to paragraph 20, following the approval of a stand-by arrangement ("SBA") or an arrangement under the Standby Credit Facility ("SCF arrangement") for a member implementing a program under a PCI, and for as long as the SBA or SCF arrangement remains in effect:

(a) reviews of the member's SBA-supported program or SCF-supported program shall normally be scheduled at such time as reviews of the implementation of the member's program under the PCI are scheduled;

(b) Quantitative Targets under the PCI shall normally be established for the same test dates and shall apply to the same variables and measures as performance criteria under the SBA or SCF arrangement; and

(c) documentation with respect to the conduct of a scheduled review under the PCI shall normally be issued to the Board at such time as documentation for a review under the SBA-supported program or SCF-supported program is issued.

Misreporting

10. Any decision approving a PCI or completing a review will be made conditional upon the accuracy of information provided by the member regarding implementation of prior actions or performance under associated Quantitative Targets or Standard Continuous Targets.

11. Whenever evidence comes to the attention of the staff indicating that the member's reporting of information noted in paragraph 10 above was inaccurate, the Managing Director shall promptly inform the member concerned.

12. If after consultation with the member, the Managing Director finds that, in fact, the member had reported such inaccurate information to the Fund, the Managing Director shall promptly notify the member of this finding.

13. In any case where a PCI was approved, or a review was completed, no more than three years prior to the date on which the Managing Director informs the member, as provided for in

paragraph 11 above, the Executive Board shall decide whether misreporting has occurred and shall reassess program performance in the light of that determination.

14. The Fund shall proceed to make relevant information public in every case, except as provided for in paragraph 15 (c), following an Executive Board decision regarding program performance under paragraph 13 above, with prior Executive Board review of the text for publication.

15. For the purposes of paragraphs 10 through 14:

(a) whenever the Managing Director considers there is evidence that the member's reporting of information noted in paragraph 10 above was inaccurate, but the inaccuracy was de minimis in nature, which is defined as so small as to be trivial with no impact on the assessment of performance under the relevant member's program, as illustrated by the examples set out in Table 1 of EBS/06/86, the communication referred to in paragraph 11 may be made by a representative of the relevant Area Department;

(b) if the Managing Director determines that, in fact, a member has reported such inaccurate information to the Fund, but the nonobservance was de minimis in nature, as defined in paragraph 15 (a) above, the notification referred to in paragraph 12 may be made by a representative of the relevant Area Department, and the Executive Board shall be informed of the misreporting in a staff report on a review under the relevant PCI or, if no such review is provided for, a staff report which deals with issues other than the misreporting, and shall include a recommendation that the Executive Board find that the misreporting was de minimis in nature and had no effect on program performance under the PCI. In those rare cases in which no review is provided for, and no other such staff report on the member is to be issued to the Board promptly after the Managing Director concludes that misreporting has taken place, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report on the misreporting will be prepared for consideration by the Executive Board normally on a lapse-of-time basis; and

(c) whenever the Executive Board finds that a member has misreported information referred to in paragraph 10, but that the nonobservance of the relevant Quantitative Target, Standard Continuous Target, or other specified condition was de minimis in nature as defined in paragraph 15 (a) above: (i) the Executive Board shall also find that the misreporting had no effect on program performance; and (ii) the fact of misreporting shall not be published by the Fund.

Applicability of Certain UFR and Other Policies

16. The Guidelines on Conditionality (Decision No. 12864-(02/102), September 25, 2002) shall apply where relevant and except where this Decision sets forth different or more specific provisions.

17. In addition, the Fund's policies on the following subjects shall apply by analogy to PCIs: (a) requirement of full program financing; (b) arrears to official sector and external private creditors; (c) use of side letters; (d) Guidelines on Public Debt Conditionality in Fund Arrangements; and (e) the decision on Lapse of Time Procedures for Completion of Program Reviews.

18. All generally applicable policies on the financing of technical assistance established by the Fund shall apply to the technical services provided under this decision, including any charging policies or expectations of self-financing.

Termination of a PCI

19. A member may cancel a PCI at any time by notifying the Fund of such cancellation.

20. A PCI for a member will terminate upon: (a) the relevant member incurring overdue financial obligations to the GRA, PRGT, or RST; (b) noncompletion of a review in any of the following circumstances: (i) where reviews are scheduled semi-annually, noncompletion of a review for a fifteen-month period computed from the scheduled review date of the last completed review or from approval of the PCI plus, where applicable, the expiration of the grace period specified in paragraph 7.b above; and (ii) where reviews are scheduled more frequently than semi-annually, noncompletion of a review for a period of twelve months computed from the scheduled review date of the last completed review or from approval of the PCI plus the lapsing of the buffer period and, where applicable the grace period, specified in paragraph 7.b above; or (c) the approval for the relevant member of an arrangement with the Fund other than a SBA or SCF arrangement or an arrangement under the Resilience and Sustainability Facility. Approval of access under the Rapid Financing Instrument or Rapid Credit Facility will not cause termination of a PCI.

21. In the case of cancellation or termination, a brief factual statement noting such shall be published.

Periodic Review

22. It is expected that the Fund will review the application of this Decision on a five-year interval or earlier, if warranted.