INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Facsimile Number
1-202-623-4661

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REVIEW OF THE IMF'S DEBT LIMITS POLICY FOR LOW-INCOME COUNTRIES

ISSUES FOR CONSULTATION

Background

In 2009, the International Monetary Fund (IMF) adopted a new policy on external debt limits in IMF-supported programs. Debt limits seek to prevent the build-up of unsustainable debt, while allowing for adequate external financing. In contrast to the previous approach, which required new borrowing to meet a minimum grant element of 35% , assessed on a loan-by-loan basis, and which allowed only exceptional recourse to nonconcessional borrowing, the new framework adopts a more flexible approach, based on a menu of options.

This menu approach takes better account of the diversity of situations faced by low-income countries (LICs) with regard to their **debt vulnerabilities**, as assessed under the joint IMF-World Bank **Debt Sustainability Framework (DSF)**, and to their macroeconomic and public financial management capacity ("**capacity**"). Under this framework, each of the two above-mentioned factors--debt vulnerabilities and capacity--is assessed to be either "lower" or "higher", resulting in **four different types of concessionality requirements. These requirements are summarized in the matrix below:**

Concessionality Matrix

		Extent of debt vulnerabilities	
		Lower	**Higher**
Capacity	**Higher**	Minimum average concessionality requirement applied to external or total public borrowing; for most advanced LICs, overall nominal debt limit if needed	Overall limit on the PV of external or total public debt; for most advance LICs, ceilings on nominal external or total public debt
	Lower	Minimum concessionality requirement based on debt-by-debt approach, but with added flexibility on nonconcessional borrowing	Maintain minimum concessionality requirement based on debt-by-debt approach, with limited or no room for nonconcessional borrowing

Currently, 22 out of the 35 low-income countries with a Fund-supported program in place are eligible for the more flexible options provided under the new policy. Additional details on the policy can be found on the IMF's Concessionality and the Design of Debt Limits page.

Guiding questions for the consultation

Specifically, the IMF is seeking your input on the following main issues:

- Do you feel you have a good understanding of the IMF's debt limit policy?
- Has the IMF's debt limits policy been helpful in preserving debt sustainability?
- Has the inclusion of concessionality requirements in IMF-supported program helped country authorities secure better financing terms from potential creditors?
- To what extent has the policy encouraged thorough cost-benefit analyses of debt-financed investment?
- Are you aware of projects considered critical and highly profitable by country authorities that could not be financed externally because of the IMF's policy? If so, what were the specific obstacles that prevented these projects from being accommodated under the program's debt limits?
- The policy classifies low-income countries according to their debt vulnerabilities and their macroeconomic and financial management capacity. In your view, are these the right dimensions to assess a country's ability to safely carry nonconcessional debt? What other considerations, if any, do you think the policy should take into account?
- Do you have other suggestions to improve the design of the policy?

Your views on any other relevant aspect of the topic not included in this preliminary set of questions are also welcome too. We greatly appreciate your input to our deliberations on this important work of the Fund.

The deadline for comments will be **May 22, 2012**, but comments received in advance of that date will be more than welcome. Comments should be submitted to IMFConsultationLIC@imf.org and should include *name of sender; company or organization you represent; address; and e-mail address*.