Toward More Effective IMF Programs

LEARNING FROM THE EVIDENCE ON CONDITIONALITY

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EXECUTIVE SUMMARY

The International Monetary Fund (IMF) is undergoing its first Review of Program Design and Conditionality since 2018. For this purpose, it is important for the IMF to base their evaluation on the best available empirical evidence. This policy brief summarizes evidence from 21 recent peer-reviewed academic studies as well as the IMF's own research on program design and conditionality.

Key findings:

- **IMF programs fall short of their stated goal of resolving countries' balance-of-payments problems:** The literature suggests that IMF programs have improved their ability to increase growth but still underestimate the negative impacts of contractionary policies and struggle to change borrowing countries' export structures.
- **IMF programs create collateral damage:** They are associated with increased poverty, inequality, neonatal mortality and deforestation.
- **IMF programs suffer from a lack of evenhandedness**: Countries aligned with Western shareholders are more likely to receive IMF loans with less stringent conditionalities.

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Key recommendations:

- IMF programs should apply more realistic and gradual volumes of fiscal adjustment, ensuring that countries have the space to increase investment, stimulate growth and change their export structures to avoid chronic balance-of-payments problems.
- Beyond prioritizing short-term stabilization and growth-enhancing policies, IMF programs should be coordinated with multilateral development banks and national authorities to support long-term policies to promote export diversification and export growth; implement stronger social and environmental safeguards; and favor revenue mobilization over expenditure cuts.
- The 2026 Review of Program Design and Conditionality should send a strong signal that the IMF is committed to evenhandedness and political considerations will not lead to differentiated treatment among borrowing members.

In a world of increasing external shocks and uncertainties that impact the balance of payments of individual countries and the financial stability of the entire membership, it is imperative that the IMF has the adequate resources and program design to prevent and mitigate financial instability. The evidence suggests that significant improvements are needed for the IMF to fulfill its mission.

INTRODUCTION

The International Monetary Fund (IMF) conducts periodic Reviews of Program Design and Conditionality (RoC), and it is currently undergoing the first review since 2018. These reviews analyze the performance of IMF programs in recent years and establish changes to the framework guiding future programs.

IMF programs are designed to address balance-of-payments challenges. According to the IMF Guidelines on Conditionality (IMF 2002), beyond safeguarding the IMF's own resources, programs have a dual goal: "(a) solving the member's balance of payments problem without recourse to measures destructive of national or international prosperity; and (b) achieving medium-term external viability while fostering sustainable economic growth." In practical terms, countries must meet certain conditions to receive planned disbursements. Roughly two-thirds of all IMF conditions are fiscal in nature, and they are often intended to support fiscal adjustments (Gupta 2021). Other conditions may include institutional changes such as labor market reform, trade and capital account liberalization or public financial management reforms. IMF standards establish that conditionalities should be "evenhanded," meaning that the IMF treats members uniformly and programs are guided by economic rather than political circumstances (IMF 2019).

As the IMF reviews its design of programs and conditionalities, it is important to base this evaluation on the best available evidence. This policy brief summarizes evidence from 21 recent peer-reviewed academic studies and the IMF's own research. Recognizing that IMF programs and external conditions have evolved over time, we place stronger emphasis on recent research published between 2015 and 2025. We focus on three main sets of questions. First, do programs help overcome the problems that led countries to seek financial assistance? Second, are there unintended consequences and negative spillovers from IMF programs that could be destructive of national prosperity? And third, is conditionality applied uniformly among IMF members, in line with the IMF's commitment to neutrality?

The evidence on these questions points to three flaws in IMF programs. First, IMF programs insufficiently address countries' balance-of-payments constraints. While the evidence suggests IMF programs have improved their ability to increase growth, they still underestimate the negative impacts of contractionary policies and impacts on balance of payments appear mixed. Although the majority of countries that underwent IMF programs exceeded IMF current account projections after three years, the margin is limited and underperformance remains widespread (IMF 2019). The mandates of IMF programs are often geared toward short-term stabilization, and while newer facilities—such as the Extended Credit Facility (ECF) and the Resilience and Sustainability Trust (RST)—place greater emphasis on longer-term balance-of-payments stability, programs generally do not address medium- and long-term objectives such as improving export structures, which are fundamental for achieving sustainable external stability. Second, IMF programs produce collateral damage, with a large body of research finding negative impacts including increases in poverty and inequality, neonatal mortality and deforestation. Third, IMF programs appear to be influenced by political motivations. The literature finds that countries of strategic importance to and aligned with the United States and other major Western shareholders are more likely to receive less stringent conditionalities.

This year's RoC provides an opportunity to correct programs' flaws, many of which have been identified in the IMF's own research, including by its former chief economist, its Independent Evaluation Office (IEO) and IMF staff working papers (Blanchard and Leigh 2013; IEO 2021; Iseringhausen et al. 2019). These flaws undermine the IMF's ability to achieve its intended outcomes of supporting financial stability and growth. Given the IMF's centrality to the Global Financial Safety Net (GFSN)—and the fact that many countries would have nowhere else to turn in its absence (Mühlich, Zucker-Marques and Fritz 2026)—it is fundamental to ensure IMF policies are fit-for purpose.

The IMF has itself expressed concerns about its programs, including that growth falls short of forecasts, that too many countries engage in repeated borrowing and conditions are not fully implemented (IMF 2019). Without exempting borrowers' responsibilities, it is important to acknowledge available evidence that suggests that some problems lie with the IMF's programs. As the body of research discussed in this policy brief indicates, revising the IMF's methods will improve its ability to achieve its intended outcomes.

THREE FLAWS WITH IMF CONDITIONALITY

Insufficient Recovery: Growth Below Potential, Export Structure Unchanged

Broader economic literature has established that sharp fiscal consolidation tends to deprive countries of the toolkit needed for economic recovery (Fatás and Summers 2013). In contrast to the "self-defeating fiscal consolidations" of the global financial crisis (DeLong and Summers 2012), more recently advanced economies have embraced expansionary recovery policy. Indeed, in 2020 as the COVID-19 pandemic hit, the United States, Japan and the United Kingdom spent 9.1 percent, 8 percent and 7.1 percent of gross domestic product (GDP), respectively, on fiscal stimulus (UNCTAD 2021).

However, for countries with limited market access that lack other liquidity options from the GFSN, the IMF remains the sole source of financing—and with it, the prescription of fiscal consolidation is often inescapable. While the IMF shifted towards more "parsimonious" conditionality after 2009—emphasizing the overall level of fiscal adjustment while requiring fewer specific budgetary changes—IMF programs have not significantly reduced the level of fiscal consolidation (Ray, Gallagher and Kring 2022).

The literature on IMF programs' effects dates back decades. Earlier studies generally found that IMF lending had neutral or negative effects on growth while countries remained under a program and that post-program benefits did not compensate for the costs (Przeworski and Vreeland 2000; Butkiewicz and Yanikkaya 2005; Dreher 2006; Barro and Lee 2005). Recent literature—as summarized in Table 1—suggests IMF programs have improved over time, with more studies finding positive impacts on growth (Balima and Sokolova 2021; IEO 2021).

However, nuances are worth noting. First, while growth is more positive relative to a counterfactual of countries continuing their pre-program policies (IEO 2021; Kim et al. 2021), growth tends to underperform program projections (IMF 2019; Balima and Sokolova 2021). The IMF's Independent Evaluation Office (IEO) found that half of programs from 2008 to 2019 underperformed staff projections by more than 0.5 percent of GDP (IEO 2021). IMF publications have repeatedly tied these challenges to the underestimation of fiscal multipliers, suggesting programs underestimate the negative

Table 1: Overview of Studies on IMF Programs' Contributions to Economic Recovery

Paper	Key finding	Details
Level of fiscal consolidation in IMF programs		
Ray, Gallagher and Kring (2022)	Contractionary	No significant change in the level of fiscal consolidation required by the IMF after the Great Financial Crisis, and outside the initial year of crisis the median program was contractionary.
Programs' effect on growth		
Balima and Sokolova (2021)	Positive but with wide variance	Meta-analysis. Better performance in concessional lending, countries with higher institutional and economic development and more recent programs. IMF-affiliated authors tend to report larger estimated effects than outside researchers. Better outcome in concessional lending could be explained by focus on structural constraints, lenient terms support growth and fewer conditionalities.
IEO (2021); Kim et al (2021)	Positive but less than expected	Positive growth impacts relative to counterfactual scenario of continuation of pre-program policies, but growth typically less than program projections.
Gupta (2021)	Mixed	During programs fiscal contraction has a significant short-term negative impact on growth, but structural fiscal reforms and stabilization during programs can improve medium-term growth.
IMF (2019)	Growth optimism	Programs systematically underestimate how adjustment impacts growth. Staff underestimated the effects of both public and private adjustment, explaining about a quarter of projection errors.
Bird and Rowlands (2017)	Positive for PRGT borrowers	Positive effects of IMF programs on growth when analyzing a sample consisting of low-income, concessional borrowers from 1989 to 2008. Explained by structural conditionalities that strengthen fundamentals.
Gündüz (2016)	Positive for a subgroup of low-income countries (LICs)	Positive to short-term growth only for LICs facing substantial macroeconomic imbalances or large exogenous shocks.
Programs' effect on export structure		
Demir (2022)	No improvement	In both the short and long run, IMF programs do not improve export sophistication, export diversification or economic complexity.
IEO (2021)	Import reductions but not export growth	Even when General Resources Account (GRA) programs do improve the current account balance, they generally come through import reductions, not improved export performance.
Debt		
IEO (2021)	Haircuts improve performance	Restructurings with principal haircuts generate better outcomes than restructurings that simply reprofile debt.
IMF (2019)	Restructurings improve performance	Programs with debt restructuring tend to be more successful than those without.

Source: Authors' compilation.

Note: Papers published by the IMF are bolded and italicized.

impacts of fiscal adjustment on growth (IMF 2019; IEO 2021; Blanchard and Leigh 2013). Second, variance in program outcomes suggests that programs that allow greater fiscal space tend to result in better outcomes. Growth appears to be higher in concessional lending programs. Studies suggest this is because these programs extend beyond short-term stabilization and help address structural constraints. Moreover, their more lenient terms reduce financial stress, which can support growth, and they typically involve fewer conditionalities than programs under the non-concessional General Resources Account (GRA) (Balima and Sokolova 2021; Bird and Rowlands 2017).

In comparison to growth, evidence is less positive on IMF programs' contributions to changes in export structure. Demir (2022) found that IMF programs "had no robust or significant effect on export structure, economic complexity or export diversification." The IEO also found that improvements in the current account balance during General Resources Account (GRA) programs generally come through import reductions, not improved export performance (IEO 2021). Import reduction can bring a country's balance of payments back to balance in the short term, but without improved export performance bringing in foreign currency, an unsustainable position may reemerge in the medium term. Hence, although challenging and requiring longer-term policies, helping countries to improve their export structure can avoid recurring IMF programs. Finally, studies found programs involving debt restructuring tended to be more successful than those without it. However, delayed or insufficient restructuring jeopardized efforts to improve debt sustainability and balance-of-payments positions (IMF 2019; IEO 2021).

Collateral Damage: IMF Programs Can Produce Harmful Social and Environmental Impacts

While there is a livelier debate about the macroeconomic impacts of IMF programs discussed in the prior section, the literature is more generally unified around the negative social spillovers of IMF programs, particularly on poverty and inequality, though some studies show a positive impact on transparency and resource management, as shown in Table 2 below.

Table 2: Overview of Studies on Spillovers of IMF Programs

Paper	Key finding	Details
Programs' effects on poverty and inequality		
Biglaiser and McGauvran (2022)	Increase poverty	IMF structural reforms (e.g. labor market reform, privatization of state assets) generally increase poverty, while stabilization conditions do not.
IEO (2021)	Shortcomings in mitigating harms	IMF programs often struggle to protect low-income and vulnerable groups and should "strengthen monitoring and reporting of the social and distributional impact."
Stubbs et al. (2021)	Fiscal consolidation increases inequality and poverty	Programs with more contractionary fiscal conditions lead to greater income inequality and increased poverty headcounts and poverty gaps.
Reinsberg, Stubbs and Kentikelenis (2020)	Regressive tax policy	IMF programs shift the composition of tax revenue towards consumption taxes rather than more progressive taxes.
Lang (2020)	Increase inequality	IMF programs increase inequality, primarily by reducing the income of the poor. The effect is stronger in democracies and when there are more program conditions.
Forster et al. (2019)	Increase inequality	IMF conditionalities increase inequality, with particular types of conditions leading to larger impacts on inequality.
Programs' effects on other social, environmental and governance factors		
Hollyer et al. (2025)	Increase data transparency of economic variables	IMF loans associated with higher number of economic variables reported to international organizations, especially for democracies.

Paper	Key finding	Details
Goes (2022)	Improve resource management	IMF programs can encourage prudent utilization of natural resource revenues.
Forster, Bhandary and Gallagher (forthcoming)	Increase deforestation	IMF programs are associated with increases in deforestation, and extremely few conditions pertain explicitly to forest management.
Forster et al. (2020)	Increase neonatal mortality	IMF programs are associated with increases in child deaths in the 28 days after birth, with their scale growing larger as the number of program conditions increases.
Stubbs et al. (2017)	Reduces government health spending	IMF policy reforms reduce fiscal space for investment in health, limit staff expansion of doctors and nurses and lead to budget execution challenges in health systems.
Gupta, Schena and Yousefi (2020)	Boost long-term social expenditures	Structural expenditure conditions have "proven effective in boosting long-term levels of education, health, and investment expenditures."
Casper (2017)	Increase coups	"Countries are more likely to experience coups during periods when IMF programs are in effect."

Source: Authors' compilation.

Note: Papers published by the IMF are bolded and italicized.

Multiple studies have found that IMF programs tend to result in increases in poverty and inequality (Biglaiser and McGauvran 2022; Stubbs et al. 2021), and a greater quantity of conditions worsens the impact (Biglaiser and McGauvran 2022; Lang 2020). Even when controlling for the possibility that the IMF imposes harsher austerity in countries with more problematic economic circumstances, more contractionary fiscal conditions lead to greater income inequality and increased poverty (Stubbs et al. 2021). Shortcomings in meeting social spending targets and monitoring distributional consequences contribute to negative impacts on poverty and inequality (Kentikelenis et al. 2016; IEO 2021). Another cause for these increases in poverty and inequality could be the IMF's approach to tax policy, which tends to shift the composition of revenue towards regressive consumption taxes rather than more progressive taxes (Reinsberg et al. 2020; Crivelli and Gupta 2015; Blasco et al. 2023).

IMF programs are also associated with reduction of government spending on health (Stubbs et al. 2017) and increases in neonatal mortality (Forster et al. 2020). In the longer term, however, Gupta et al. (2020) find that structural expenditure conditions have boosted levels of education, health and investment expenditures. While effects on the environment have been less researched, IMF programs have been found to be associated with increases in deforestation (Forster, Bhandary and Gallagher forthcoming). In terms of political impacts, IMF programs have been associated with negative effects on democracy and an increased likelihood of coups (Barro and Lee 2005; Casper 2017). More positively, however, studies point to increases in economic transparency and prudent utilization of natural resource revenues (Hollyer et al. 2025; Goes 2022).

Lack of Evenhandedness: Political Factors Appear to Influence IMF Programs

Rooted in the Articles of Agreement and the doctrine of economic neutrality, evenhandedness is a fundamental commitment of the IMF (Articles of Agreement IV(3)(b); Swedberg 1986; IMF 2016). This requirement for uniformity of treatment is meant to prevent political factors from motivating program design (Thacker 1999). The last RoC reaffirmed the importance of evenhandedness and noted existing concerns (IMF 2019). A deep body of research has identified a lack of evenhandedness in IMF programs, as shown in Table 3 below.

Table 3: Overview of Studies on Evenhandedness of IMF Programs

Paper	Key finding	Details
Ferry and Zeitz (2024)	Faster program approval when UNSC member	United Nations Security Council (UNSC) membership and high exposure of shareholder creditors both lead to shorter negotiation times for IMF programs.
Youssef and Zaki (2023)	More loans when aligned with major shareholders	Economic and political proximity to the IMF major shareholders increases the probability of receiving an IMF loan.
Ray, Gallagher and Kring (2022)	Stricter austerity when China-aligned	Closer UN General Assembly voting alignment with China is associated with stricter austerity conditions in IMF programs.
Dreher et al. (2022)	More loans for US-aligned UNSC members	Temporary members of the UN Security Council tend to receive more IMF loans, but this relationship only exists when they generally vote in alignment the United States.
Dreher (2018)	More loans when UNSC member	Temporary UN Security Council members are more likely to receive IMF loans, but after their term the probability returns to normal levels.
IEO (2016)	Favorable conditions and processes for European borrowers	Lack of transparency and accountability during the European debt crisis raised questions of preferential treatment when dealing with European countries.

Source: Authors' compilation.

Note: Papers published by the IMF are bolded and italicized.

Studies have identified geopolitical drivers for IMF programs. Temporary UN Security Council members are more likely to receive IMF loans, and their programs tend to be approved faster and have fewer conditions; the effect disappears after the term ends (Dreher 2018; Dreher et al. 2022; Ferry and Zeitz 2024). The literature also strongly suggests that alignment with a particular geopolitical bloc influences countries' treatment by the IMF. The increased probability of loans for temporary UN Security Council members only holds when countries' voting aligns with the United States (Dreher et al. 2022). UN General Assembly voting that is aligned with the United States also increases the probability of IMF loans, as does trade with the United States and other major IMF shareholders (Youssef and Zaki 2023; Barro and Lee 2005). Countries' exposure to creditors from among major IMF shareholders is associated with faster IMF program approval and fewer binding program conditions, and receiving US military aid is also correlated with less stringent conditionality (Ferry and Zeitz 2024; Breen 2012). In contrast, UN voting alignment with China is associated with stricter austerity conditions (Ray, Gallagher and Kring 2022). Finally, according to the IEO (2016), the IMF introduced multiple exceptions and at times bypassed Executive Board consultation during the European debt crisis, raising concerns about preferential treatment.

KEY CHANGES FOR THE 2026 REVIEW OF PROGRAM DESIGN AND CONDITIONALITY

Addressing the flaws described above is necessary for IMF programs to achieve their intended outcomes of supporting financial stability, growth and prosperity. Addressing these flaws is also necessary for the IMF to uphold its own doctrine of economic neutrality. The evidence suggests that reducing reliance on excessive fiscal consolidation would contribute to facilitating growth and reducing the need for repeat borrowing (Iseringhausen et al. 2019). Generating more export growth and sophistication would structurally improve balance-of-payments stability, although this is not a simple task and would require collaboration with national authorities and multilateral development banks (MDBs) (Demir 2022). More realistic and differentiated analysis of the multiplier effects of expansionary and contractionary policy would improve the accuracy of IMF forecasts (IMF 2019;

Blanchard and Leigh 2013). Reducing reliance on painful austerity and conditionalities with regressive social impacts could incentivize countries to seek out programs in a timelier manner (Andone and Scheubel 2019), increase adherence to program conditions (Reinsberg et al. 2021a; Reinsberg et al. 2021b) and contribute to political stability (Casper 2017). Last, evenhanded treatment of countries is important to protect the IMF's legitimacy and improve program outcomes by ensuring economic factors guide decision-making rather than political ones. Many of these changes have found support in the IMF's own research and reviews.

Some important changes that would facilitate program success are outside the scope of the IMF's ongoing Review of Program Design and Conditionality, but this review still has great latitude to ensure programs better achieve their intended ends. Concretely:

- The IMF should call for more realistic and gradual volumes of fiscal adjustment, ensuring that countries have the space to stimulate growth and are not forced to stifle it.
- The IMF should better integrate fiscal multipliers into its analysis.
- The IMF should craft terms in close collaboration with borrowing governments and with strong political economy analysis, ensuring that agreed conditions are ones that governments could realistically implement and populations could realistically accept.
- To minimize negative distributional impacts, the IMF should prioritize economic growth and revenue mobilization over expenditure cuts, with revenue mobilization deriving principally from progressive taxation—such as through income and corporate taxation—rather than regressive consumption taxes. It should also raise social spending floors and ensure other conditions do not preclude countries' abilities to implement them, reduce the speed and scale of potentially shock-inducing trade and capital account liberalization and ensure strong monitoring of distributional and environmental impacts.
- The IMF should better coordinate with national authorities and MDBs to align short-term programs with longer-term strategies for export diversification and revenue mobilization. While the IMF's mandate focuses on short-term stabilization, structural changes in the export pattern would help strengthen the resilience of countries' balance of payments and reduce the probability of recurring programs.
- The RoC should send a strong signal that the IMF is committed to evenhandedness and political considerations will not lead to differentiated treatment among borrowing members. The IEO can also be empowered to more systemically study the evenhandedness of IMF programs.

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