

IMF Programs & Economic Reforms in Transition Countries

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Research Questions

- A major purpose of IMF programs in the transition countries has been to help countries move along economic reforms.

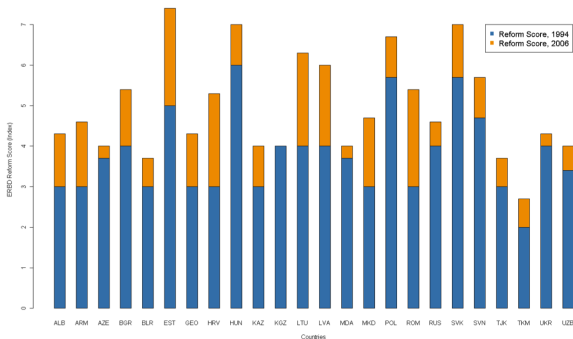


Research Questions

- A major purpose of IMF programs in the transition countries has been to help countries move along economic reforms.
- How does the design of IMF programs influence the extent of reform?



Reform Progress in Transition Economies





Domestic Obstacles to Reforms

- Opposition by “stakeholders” in the status quo (Shleifer & Treisman 2000)



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- Angry voters
- Vested interests
- Political polarization



IMF Programs as Solution?

- From the IMF's own *Finance & Development*:

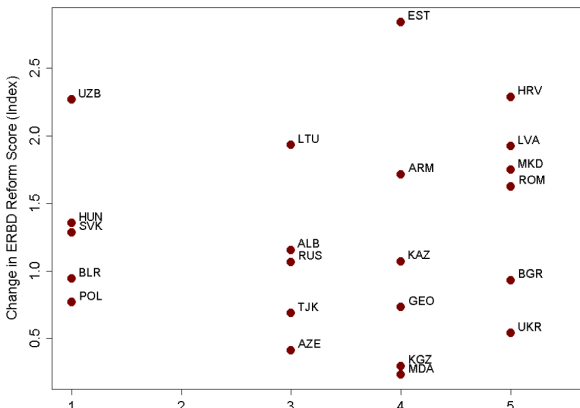


IMF Programs as Solution?

- From the IMF's own *Finance & Development*:
- “Other external pressure might come from the international financial institutions **using loan conditionality to push through key reforms even if vested interests resist. This may be an important factor in whether or not the transition process advances** or remains mired in the intermediate stage.”



IMF Programs & Reforms





IMF Programs Vary

- IMF programs differ from each other considerably in the number & scope of conditions.
- IMF programs constrain governments differently.
- Detailed programs bind governments more tightly.



Program Design Affects Implementation

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Program Design Affects Implementation

- Politics between reforming government and domestic opposition is at the heart of successful implementation of reforms.
- Structural conditions bind governments more tightly than quantitative targets.
- More binding programs provides governments less flexibility to compromise with domestic opposition. Less binding programs allow governments to adjust reform measures in face of opposition.



Hypothesis

- The greater the number of structural conditions in a program, the less extensive the reform progress associated with that program.



Data & Design

- Dataset: All IMF programs in the post-communist countries, 1994-2009.
- Dependent variable: *Reform Index*
- Independent variable: *Structural Conditions*
- Controls: Prior reform score, number of previous programs, economic development, democracy, inflation, unemployment, debt crises, and economic growth



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- Methods: OLS, TSCS

Economic Reform Index <i>Factor Score</i>	IMF Conditions – Total	IMF Conditions – Public Sector	IMF Conditions – Instrumental Variables
Variables			
Economic Reform _{<i>t</i>-1}	0.839* (0.057)	0.849* (0.058)	0.843* (0.058)
Structural Conditions _{<i>t</i>-1}	-0.015* (0.005)	-0.006* (0.002)	-0.010* (0.003)
GDP per capita _{<i>t</i>-1} , (logged)	0.152* (0.047)	0.139* (0.049)	0.158* (0.051)
Democracy _{<i>t</i>-1}	0.147* (0.060)	0.130* (0.061)	0.144* (0.063)
Multiple Programs _{<i>t</i>-1}	0.019 (0.014)	0.018 (0.013)	0.017 (0.013)
No. of Cases	77	77	72
Estimator	OLS	OLS	LIML

Economic Reform Index <i>Factor Score</i>	Panel-Corrected Standard Errors	Fixed Effects	Error-Correction Model
Variables			
Economic Reform _{<i>t</i>-1}	0.893* (0.020)	0.759* (0.023)	-0.129* (0.010)
ΔStructural Conditions			-0.002 (0.001)
Structural Conditions_{<i>t</i>-1}	-0.003* (0.001)	-0.002* (0.001)	-0.005* (0.001)
ΔGDP per capita, (logged)			1.753* (0.373)
GDP per capita _{<i>t</i>-1} , (logged)	0.077* (0.013)	-0.070* (0.042)	0.108* (0.008)
ΔDemocracy			-0.019 (0.024)
Democracy _{<i>t</i>-1}	0.065* (0.013)	0.060* (0.018)	0.070* (0.019)
ΔMultiple Programs			-0.037 (0.039)
Multiple Programs _{<i>t</i>-1}	0.023* (0.003)	0.048* (0.006)	0.020* (0.003)
No. of Cases	371	371	341
Country Fixed Effects	No	Yes	Yes
AR1 Correction	Yes	Yes	Yes



Findings

- Fewer public sector conditions are associated with more extensive reforms in the future.
- Holds for multiple operationalizations of the dependent variable, alternate model specifications, and unit-specific effects.



Implications

- Fewer structural conditions within an IMF program may improve overall reform outcomes.
- Allows governments to better adjust in implementation stage and proceed farther with controversial reforms.
- Where domestic opposition is high, more conditions unlikely to help and may backfire.



Thank you in advance for comments and suggestions.

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