the economic impact of imf supported programs in low income countries occasional paper intl monetary fund

#IMF economic impact #low income countries IMF #IMF programs evaluation #developing countries financial aid #International Monetary Fund research

Explore the profound economic impact of programs supported by the International Monetary Fund (IMF) in low-income countries. This occasional paper delves into the effectiveness and real-world consequences of IMF interventions, offering critical insights into their role in fostering stability and development in vulnerable economies.

IMF-Supported Programs in Low Income Countries: Economic Impact over the Short and Longer Term

This paper studies the short and longer-term impact of IMF engagement in Low-Income Countries (LICs) over nearly three decades. In contrast to earlier studies, we focus on a sample composed exclusively of LICs and disentangle the different effects of IMF longer-term engagement and short-term financing using a propensity score matching approach to control for selection bias. Our results indicate that longer-term IMF support (at least five years of program engagement per decade) helped LICs sustain economic growth and boost resilience by building fiscal buffers. Interestingly, the size of IMF financing has no significant impact on economic growth, possibly pointing to the prominent role of IMF policy advice and institutional capacity building in the context of longer-term engagement. We also present evidence that the short-term IMF engagement through augmentations of existing programs or short-term and emergency facilities is positively associated with a wide range of macroeconomic outcomes. Notably, the IMF financial support has the greatest impact on short-term growth when LICs are faced with substantial macroeconomic imbalances or exogenous shocks.

The Economic Impact of IMF-Supported Programs in Low-Income Countries

This paper aims to assess the economic impact of the IMF's support through its facilities for low-income countries. It relies on two complementary econometric analyses: the first investigates the longer-term impact of IMF engagement—primarily through successive medium-term programs under the Extended Credit Facility and its predecessors (and more recently the Policy Support Instrument)—on economic growth and a range of other indicators and socioeconomic outcomes; the second focuses on the role of IMF shock-related financing—through augmentations of Extended Credit Facility arrangements and short-term and emergency financing instruments—on short-term macroeconomic performance.

IMF Macroeconomic Research on Low-Income Countries

Summarizes the for ward-looking analytical work program on macroeconomic issues related to the Poverty Reduction Strategy Paper approach. The program is evolving through a process that began with a technical workshop; participants from low-income countries, donors, academia, and civil society drafted guidance on selected issues and identified priority research topics. Partners, policymakers, and economic scholars are encouraged to share their perspectives and findings through respective team leaders, whose e-mail addresses are provided. The publication also summarizes IMF analytical work, and contains a bibliography of nearly 1,000 papers.

The Impact of IMF-Supported Programs on FDI in Low-income Countries

It is common for IMF-supported adjustment programs with low-income member countries (LICs) to project that they will facilitate FDI inflows. The main objective of this paper is to empirically examine this hypothesis. Using an unbalanced panel dataset for 73 low-income countries over the period 1980–2012, and two different econometric methods that address the selection-bias problem, the empirical results robustly show that participating in IMF-supported program is associated with a significant increase in FDI inflows.

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IMF Staff Papers, Volume 49, No. 3

This paper empirically investigates the monetary impact of banking crises in Chile, Colombia, Denmark, Japan, Kenya, Malaysia, and Uruguay during 1975–98. Cointegration analysis and error correction modeling are used to research two issues: (i) whether money demand stability is threatened by banking crises; and (ii) whether crises lead to structural breaks in the relation between monetary indicators and prices. Overall, no systematic evidence that banking crises cause money demand instability is found. The paper also analyzes inflation targeting in the context of the IMF-supported adjustment programs.

The Economic Impact of IMF-Supported Programs in Low-Income Countries

This paper aims to assess the economic impact of the IMF's support through its facilities for low-income countries. It relies on two complementary econometric analyses: the first investigates the longer-term impact of IMF engagement—primarily through successive medium-term programs under the Extended Credit Facility and its predecessors (and more recently the Policy Support Instrument)—on economic growth and a range of other indicators and socioeconomic outcomes; the second focuses on the role of IMF shock-related financing—through augmentations of Extended Credit Facility arrangements and short-term and emergency financing instruments—on short-term macroeconomic performance.

The Design of IMF-Supported Programs

This publication contains a collection of papers which examine the design of IMF-supported programmes during the years 1995-2000 in both middle-income and low-income countries. The analysis covers objectives and outcomes, policy formulation and programme design, and experiences in relation to macroeconomic and structural policies.

The ESAF at Ten Years

For over 10 years, the IMF has supported adjustment and reform programs in many of its low-income members through two facilities established specifically for that purpose - the Enhanced Structural Adjustment Facility (ESAF) and its precursor the Structural Adjustment Facility (SAF). By the end of 1994, 36 countries had availed themselves of these facilities, in support of 68 multi-year programs. This study summarizes the findings of a review of the experience under these programs and of economic developments in the countries that undertook them.

IMF-Supported Programs in Indonesia, Korea and Thailand

This paper is a preliminary review of the design of and early experience with IMF-supported programs in Indonesia, Korea, and Thailand during 1997-98. The review takes into account developments as of October 1998, and was the basis for a discussion of the programs by the IMF's Executive Board in December 1998.

Fund-Supported Programs, Fiscal Policy, and Income Distribution

This is the third in a group of three papers dealing with various aspects of Fund-supported adjustment programs.

The Macroeconomic Effects of Fund-Supported Adjustment Programs

The IMF Working Papers series is designed to make IMF staff research available to a wide audience. Almost 300 Working Papers are released each year, covering a wide range of theoretical and analytical topics, including balance of payments, monetary and fiscal issues, global liquidity, and national and international economic developments.

IMF-Supported Programs and Income Convergence in Low-Income Countries

Continuing the empirical debate on the effects of IMF-supported programs on participating countries' macroeconomic performance, we focus on the issue of whether these programs accelerate conditional ß-convergence among low-income countries (LICs). We use an unbalanced panel dataset for 85 LICs over the period 1986-2015 and employ two different econometric methods to address the selection bias problem. Our empirical results suggest that the rate of conditional income per capita convergence is faster among LICs with extended IMF support than that in countries without support or with intermittent support.

Fund Supported Adjustment Programs and Economic Growth

This is the first of a group of papers dealing with various aspects of Fund-supported adjustment programs. The other two, The Global Effects of Fund-supported Adjustment Programs by Morris Goldstein and Fund-Supported Programs, Fiscal Policy, and Income Distribution by the Fiscal Affairs Department, will also be published in the Fund's Occasional Paper Series.

Do IMF-Supported Programs Work? A Survey of the Cross-Country Empirical Evidence

Over the last two decades a number of cross-country empirical studies have been undertaken to assess whether IMF-supported adjustment programs have led to an improved balance of payments and current account balance, lower inflation, and higher growth. These studies use a variety of methodologies and cover different country samples and time periods. This paper critically surveys the evidence yielded by the cross-country studies, paying special attention to the pros and cons of the respective empirical methodologies employed. These studies, particularly the more recent ones, conclude that IMF-supported programs have generally been successful in stabilizing the economy.

Economic Adjustment in Low-income Countries

This paper evaluates progress made under ESAF-supported programs in attaining external viability, restoring economic growth, and implementing structural reforms. Performance is evaluated for 19 countries that entered ESAF arrangements by mid-1992, against the background of their initial conditions, external environment, and implementation of structural and macroeconomic policies.

The Implications of Fund Supported Adjustment Programs for Poverty

This paper presents a study that focuses on specific adjustment programs for limited periods and is aimed largely at analyzing the short-run implications of the policy measures. The longer run implications are also discussed whenever relevant, since much of the rationale for policies and many of the beneficial effects on the poor are likely to be realized over time. The study also notes any compensatory targeting measures oriented to the poor, together with their implications for the adjustment efforts and the political viability of the programs. These analyses may provide lessons for improving the design of future adjustment programs. The chapter also summarizes the sample countries and programs; and describes the methodology used in the study. The results of the study suggest that adjustment programs in general have important distributional implications. During the process of adjustment, it is inevitable that some social groups gain while others lose, particularly when adjustment is aimed at a shift in sectoral resource allocation.

Structural Reforms and Economic Performance in Advanced and Developing Countries

This volume examines the impact on economic performance of structural policies-policies that increase the role of market forces and competition in the economy, while maintaining appropriate regulatory frameworks. The results reflect a new dataset covering reforms of domestic product markets, international trade, the domestic financial sector, and the external capital account, in 91 developed and developing countries. Among the key results of this study, the authors find that real and financial reforms (and, in particular, domestic financial liberalization, trade liberalization, and agricultural liberalization) boost income growth. However, growth effects differ significantly across alternative reform sequencing strategies: a trade-before-capital-account strategy achieves better outcomes than the reverse, or even than a "big bang"; also, liberalizing the domestic financial sector together with the external capital account is growth-enhancing, provided the economy is relatively open to international trade. Finally, relatively liberalized domestic financial sectors enhance the economy's resilience, reducing output costs from adverse terms-of-trade and interest-rate shocks; increased credit availability is one of the key mechanisms.

Expenditure Conditionality in IMF-supported Programs

This paper studies the impact of expenditure conditionality in IMF programs on the composition of public spending. A granular dataset on different government expenditure conditions covering 115 countries for the 1992-2016 period is compiled. The results support the view that while conditionality on specific elements of spending could help achieve a program’s short-term objectives, it is structural conditionality which delivers lasting benefits. Structural public financial management conditionality (such as on budget execution and control) has proven to be effective in boosting the long-term level of education, health, and public investment expenditures. The results further indicate that conditionality on raising such spending may come at the expense of other expenditures. Finally, the successful implementation (and not mere existence) of the conditionality is crucial for improved outcomes. These findings are relevant for policy makers targeting achievement of the Sustainable Development Goals (SDGs).

Review of Facilities for Low-Income Countries - Supplement 1

This supplement aims to assess the economic impact of the Fund’s support through its facilities for low-income countries (LICs). It relies on two complementary econometric analyses: the first investigates the longer-term impact of Fund engagement—primarily through successive medium-term programs under the Extended Credit Facility (ECF) and its predecessors (and more recently the Policy Support Instrument (PSI))—on economic growth and a range of other indicators and socio-economic outcomes; the second focuses on the role of IMF shock-related financing—through augmentations of ECF arrangements and short-term and emergency financing instruments—on short-term macroeconomic performance. The empirical results shed some light on two channels through which different Fund facilities may have helped LICs respond to the global financial crisis—(i) by supporting a gradual buildup of macroeconomic buffers in the decades prior to the crisis and (ii) by providing liquidity support at the height of the crisis. The combination of strong pre-crisis buffers and crisis financing allowed LICs to pursue counter-cyclical policy responses that preserved spending and facilitated a rapid recovery.

Growth and Adjustment in IMF-Supported Programs

This evaluation assesses how well IMF-supported programs helped to sustain economic growth while delivering adjustment needed for external viability over the period 2008–19. The evaluation finds that the Fund’s increasing attention to growth in the programs has delivered some positive results. Specifically, it does not find evidence of a consistent bias towards excessive austerity in IMF-supported programs. Indeed, programs have yielded growth benefits relative to a counterfactual of no Fund engagement and boosted post-program growth performance. Notwithstanding these positive findings, program growth outcomes consistently fell short of program projections. Such shortfalls imply less protection of incomes than intended, fuel adjustment fatigue and public opposition to reforms, and jeopardize progress towards external viability. The evaluation examines how different policy instruments were applied to support better growth outcomes while achieving needed adjustment. Fiscal policies typically incorporated growth-friendly measures but with mixed success. Despite some success in promoting reforms and growth, structural conditionalities were of relatively low depth and their potential growth benefits were not fully realized. Use of the exchange rate as a policy tool to support growth and external adjustment during programs was quite limited. Lastly, market debt operations were useful in some cases to restore debt sustainability and renew market access, yet sometimes were too little and too late to deliver the intended benefits. The evaluation concludes that the IMF should seek to further enhance program countries' capacity to sustain activity while undertaking needed adjustment during the program and to enhance growth prospects beyond the program. Following this conclusion, the report sets out three recommendations aimed at strengthening attention to growth implications of IMF-supported programs, including the social and distributional consequences.

Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility

In 1999, the IMF and the World Bank adopted a new frame work for supporting economic reform in low-income member countries to achieve the objectives of poverty reduction and economic growth. The frame work consists of two key elements: country-authored Poverty Reduction Strategy Papers, drawing on broad-based consultations with key stake holder groups; and a vehicle for the provision of IMF concessional lending, the Poverty Reduction andGrowth Facility. This evaluation takes stock of progress to date and attempts to identify short comings that may require course corrections in the design and implementation of the initiative.

Do IMF-Supported Programs Help Make Fiscal Adjustment More Durable?

This paper investigates fiscal developments in 112 countries during the 1990s. It finds that, while the overall fiscal balance improved in most of them, the composition of this improvement differed. In nonprogram countries, revenues increased modestly and expenditure declined sharply, while in program countries both revenue and expenditure declined. However, in countries with programs that included structural conditions the adjustment was effected primarily through sharp expenditure compression. We did not find evidence of a statistically significant impact of IMF conditionality. Morever, fiscal improvements are strongly influenced by cyclical factors

How to Gain the Most from Structural Conditionality of IMF-Supported Programs

Structural conditionality of IMF-supported programs is designed to support structural reforms by countries borrowing from the IMF. Taking stock of program conditions and their implementation, this paper finds that conditionality focuses on fiscal, monetary and financial issues—areas where IMF expertise is strong—and shies away from structural areas such as labor or product market reforms. Hence, tackling deep-rooted structural issues during IMF-supported programs often remained elusive. To ensure countries gain most from IMF conditionality, the paper outlines an evaluation matrix for prioritizing and designing structural reforms, and applies it to case studies.

Designing Monetary and Fiscal Policy in Low-income Countries

Macroeconomic outcomes in low-income countries (LICs) have improved markedly in recent years, but important questions remain regarding possible adjustments in the design of IMF-supported programmes. This paper draws on the experience of LICs that have successfully addressed the most apparent domestic macroeconomic imbalances, as well as a literature review. Although it focuses on a group of 15 mature stablisers, the paper also considers issues of relevance to other Poverty Reduction and Growth Facility (PRGF) supported programmes, including increasing capacity to absorb foreign aid and improving efficiency of public spending.

Catalyzing Capital Flows

An objective of IMF-supported programs is to help countries improve their access to international capital markets. In this paper, we examine the issue whether IMF-supported programs influence the ability of developing country issuers to tap international bond markets and whether they improve spreads paid on the bonds issued. We find that IMF-supported programs do not provide a uniformly favorable signaling effect-that is, the mere existence of a program supported by the IMF does not act as a strong "seal of good housekeeping." Instead, the evidence is most consistent with a positive effect of IMF-supported programs when they are viewed as likely to lead to policy reform and when undertaken before economic fundamentals have deteriorated significantly. The size of the IMF-supported program matters, but the credibility of a joint commitment by the country and the IMF appears to be critical.

Experience with Large Fiscal Adjustments

When policymakers have little option but to consider a sizable fiscal adjustment, they are confronted by the following questions: Can a large fiscal adjustment be implemented succesfully? How is a large adjustment best designed and implemented? What will be its impact on the economy? This Occasional Paper addresses these questions by describing the experience of countries that have undertaken large fiscal adjustments in the last three decades. It provides operational guidance to policymakers by identifying preconditions, common policy approaches, and institutional arrangements underlying successful and unsuccessful adjustment episodes.

How Effective is Monetary Transmission in Low-Income Countries? A Survey of the Empirical Evidence

This paper surveys the evidence on the effectiveness of monetary transmission in low-income countries. It is hard to come away from this review with much confidence in the strength of monetary transmission in such countries. We distinguish between the "facts on the ground" and "methodological deficiencies" interpretations of the absence of evidence for strong monetary transmission. We suspect that "facts on the ground" are an important part of the story. If this conjecture is correct, the stabilization challenge in developing countries is acute indeed, and identifying the means of enhancing the effectiveness of monetary policy in such countries is an important challenge.

The IMF Approach to Economic Stabilization

This paper presents a study that examines the impact on poverty groups of the policy measures adopted under IMF-supported adjustment programs in seven countries. It examines the implications for various poverty groups of broad objectives, targets, and policies of the programs in the specific economic settings of the countries concerned. The paper describes the methodology used in the study, and summarizes the results of the study with regard to the distributional implications of the principal macroeconomic policy instruments adopted in connection with the programs.

The Implications of Fund Supported Adjustment Programs for Poverty

A strengthened fiscal position is at the core of most economic adjustment programs supported by IMF lending, especially for the poorer countries that draw on the IMF's structural adjustment facilities. This paper reviews developments in 23 countries and evaluates their experience with fiscal and structural adjustment, including their efforts to design social safety nets to cushion the effects of adjustment.

The Fiscal Dimensions of Adjustment in Low-income Countries

There is some evidence that IMF and World Bank adjustment lending smooths consumption for the poor, reducing the rise in poverty for any given contraction of the economy but also reducing the fall in poverty for any given expansion. Adjustment lending plays a similar role as inequality, reducing poverty's sensitivity to the economy's aggregate growth rate.

The Effect of International Monetary Fund and World Bank Programs on Poverty

Research work by the IMF’s staff on the effectiveness of the country programs the organization supports, which has long been carried out, has intensified in recent years. IMF analysts have sought to “open up the black box” by more closely examining program design and implementation, as well as how these influence programs’ effectiveness. Their efforts have also focused on identifying the lending, signaling, and monitoring features of the IMF that may affect member countries’ economic performance. This book reports on a large portion of both the new and the continuing research. It concludes that IMF programs work best where domestic politics and institutions permit the timely implementation of the necessary measures and when a country is vulnerable to, but not yet in, a crisis. It points to the need for a wider recognition of the substantial diversity among IMF member countries and for programs to be tailored accordingly while broadly maintaining the IMF’s general principle of uniformity of treatment.

IMF-Supported Programs

A model reflecting the monetary approach to the balance of payments was developed in the International Monetary Fund (IMF) in the 1950s. Its purpose was to integrate monetary, income, and balance of payments analysis, and it became the basis of the conditionality applied to IMF credits. Extremely simple, with primary focus on the balance of payments effects of credit creation by the banking system, the model has retained its usefulness for policy purposes over time, as it was adapted to changes in member countries' priorities and in the international monetary system, in particular the disappearance of the par value system.

The IMF Monetary Model At Forty

Staff Discussion Notes showcase the latest policy-related analysis and research being developed by individual IMF staff and are published to elicit comment and to further debate. These papers are generally brief and written in nontechnical language, and so are aimed at a broad audience interested in economic policy issues. This Web-only series replaced Staff Position Notes in January 2011.

What Happens to Social Spending in IMF-Supported Programs?

This paper examines the macroeconomic effects of IMF-supported adjustment programs. The evidence is reviewed for such effects, and new estimates are provided of these effects for 69 developing countries with programs during 1973–88. The empirical analysis indicates that in the short term, programs have led to an improvement in the current account and the balance of payments, a lowering of inflation, and a decline in growth. In the longer term, the positive effects of programs on the external balance and inflation are strengthened, and the adverse growth effects reduced.

IMF Staff papers, Volume 37 No. 2

This paper discusses the IMF's New Facilities for Structural Adjustment (SAF) for helping the poor. The first arrangement supported by the SAF was approved by the IMF's Executive Board in August 1986. By the end of February 1992, 35 countries had already used resources under SAF arrangements and 19 under enhanced structural adjustment facility arrangements. For several of these, donors have used the policy framework paper as a basis for deciding their own loan commitments. It is hoped that the IMF's part in the international effort to deal with the crisis in the poorest countries will make an effective contribution to improving their well-being in a sustainable way.

Helping the Poor

In this paper, we examine the IMF's role in maintaining the access of emerging market economies to international capital markets. We find evidence that both macroeconomic aggregates and capital flows improve following the adoption of an IMF-supported program, although they may initially deteriorate somewhat. Consistent with theoretical predictions and earlier empirical findings, we find that IMF-supported programs are most successful in improving capital flows to countries with bad, but not very bad fundamentals. In such countries, IMF-supported programs are also associated with improvements in the fundamentals themselves.

Keeping Capital Flowing

The Enhanced Structural Adjustment Facility (ESAF) is the cenerpiece of the International Monetary Fund's strategy to provide assistance on concessional terms to low-income member countries that are undertaking important macroeconomic adjustment and stuctural reforms. By February 1999, a total of SDR 7 billion (about US$9 billion) had been distributed under 79 ESAF arrangements to 51 developing countries. Edited by Hugh Bredenkamp and Susan Schadler, this volume features internal IMF staff assessments of the ESAF and provides an historical account of policies implemented and outcomes achieved under ESAF- supported programs.

Economic Adjustment and Reform in Low-Income Countries (ESAF Review Background Papers)

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IMF-Supported Programs