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IMF lending programs: Participation and impact

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Abstract

Participation in IMF programs has been an option that more and more developing countries have exercised in recent years. In this paper a detailed analysis of such participation over the period 1976â€“1986 provides a number of insights into the motivations for and the macroeconomic effects of such participation. Participation is driven by a combination of past performance, present external influences and sluggish adjustment of developing countries. The ability to predict which countries will participate in the IMF program is quite good, with nearly 90 percent of variation in such choices accounted for by the explanatory variables employed. Increased participation has as contemporaneous effects a reduction in economic growth and domestic investment and an improvement in the current account. Lagged effects of increased participation on economic growth and domestic investment are positive, and in most estimates quantitatively greater than the contemporaneous effects. There is also evidence of significantly lower public investment, an increased budget surplus and real depreciation of the exchange rate with increased participation. Results for domestic credit creation and the exchange rate with increased participation. Results for domestic credit creation and government current expenditure, although they have a sign consistent with more austere policy, cannot be shown to be significantly different from those not participating.

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Keywords

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