

## The determinants of IMF fiscal conditionalities: economics or politics?

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Bernardo Guimaraes<sup>1,3</sup> and Carlos Eduardo Ladeira<sup>2</sup>

<sup>1</sup>Centre for Macroeconomics, <sup>2</sup>HEC Montreal, <sup>3</sup>Sao Paulo School of Economics -FGV

The IMF is often criticized for its allegedly politically oriented behavior. In particular, politics are said to play a key role in determining IMF conditionalities, the set of policies that borrowing countries agrees to uphold. Corroborating this view, one important finding in the literature is that the number of conditions in an agreement between the IMF and a country is affected by its political proximity to the Fund's main shareholders.

However, the number of conditions in an IMF program is not an accurate measure of its level of austerity. This paper estimates the effects of political and economic factors on a different measure of stringency of IMF programs: the size of fiscal adjustment requested in an agreement between the IMF and a country's authorities (henceforth the requested fiscal adjustment). This is defined as the difference between the requested target for the government budget balance (as proportion of GDP) and its pre-program value.

We build a data set comprising information from 143 programs and 52 countries in the period between 1999 and 2012. As found in the literature, political proximity of the borrowing country to the Fund's major shareholders has an important effect on the number of fiscal conditions in an IMF agreement. However, the fiscal adjustment requested by the IMF is strongly affected by the size of a country's fiscal deficit, whilst political proximity to G5 countries has no significant effect on this measure. The results for both measures of stringency of conditionalities are thus very different, but that is because they are completely different indicators: the correlation between the number of fiscal conditions and the requested fiscal adjustment is only 0.06 in our sample.

The effect of fiscal variables on our measure of stringency of IMF programs is large. An increase in the fiscal deficit by one percentage point increases the required fiscal adjustment by around 0.5\%. Therefore, according to our results, the stringency of IMF conditionalities is mostly driven by economic factors, not by politics.