

WHICH VARIABLES EXPLAIN DECISIONS ON IMF CREDIT? AN EXTREME BOUNDS ANALYSIS

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This paper analyses which economic and political factors affect the chance that a country receives IMF credit or signs an agreement with the Fund. We use a panel model for 118 countries over the period 1971–2000. Our results, based on extreme bounds analysis, suggest that it is mostly economic variables that are robustly related to IMF lending activity, while most political variables that have been put forward in previous studies on IMF involvement are non-significant. To the extent that political factors matter, they seem more closely related to the conclusion of IMF agreements than to the disbursement of IMF credits.

1. INTRODUCTION

THE INTERNATIONAL Monetary Fund (IMF) was created toward the end of World War II. One of its main objectives is to help governments resolve temporary balance of payments problems. At present 184 countries are members of the IMF and eligible to take out loans from the Fund. However, not all borrowing is automatic. At a certain level of borrowing, a government must commit to adjustment programs in exchange for access to IMF funds (Mussa and Savastano, 2000).

How does the IMF decide on its lending? Article I of the Articles of Agreement of the IMF states that the activities of the Fund should, among other things, “facilitate the expansion and balanced growth of international trade” and “promote exchange stability.” In other words, one should expect IMF lending to be based on mainly economic considerations. Indeed, various studies, many of which will be reviewed in the present paper, find that the chance that a country receives IMF support depends on the economic situation in the country concerned. Notably variables like a country’s reserve position, its debt service, and its real growth rate are often found to be important determinants of the likelihood that a country receives IMF credit.

However, it would be hard to deny that — at least to some extent — political-economic factors may also play a role in the Fund’s lending decisions. As the *Financial Times* reports, this view is shared by the managing director of the IMF, who regards the IMF “primarily as a political institution,” in which “technical analysis must play a secondary role to

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politics.”¹ In his discussion of the debate on the IMF, Willett (2001, p. 595) even argues that “in a number of instances the IMF has been forced to abandon its economic principles in order to do the political bidding of its major shareholders, the governments of the United States and the other industrial countries.” Indeed, Thacker (1999) and Barro and Lee (2002) report evidence suggesting that access to IMF funds is skewed towards countries that are aligned with the US. The alleged political manipulation of the IMF has led some scholars to recommend that it be given greater formal independence, similar to the independence nowadays granted to central banks; see, for instance, De Gregorio et al. (1999).²

In addition, political factors are likely to come into play from the demand side. To ensure that adjustment programs be implemented in countries receiving funds, the IMF must take factors that drive domestic political processes into account. For instance, reaching an agreement with the authorities that stands little chance of being approved by the legislature of the country concerned seems futile (Willett, 2001).³ Furthermore, ethnic, political, and other divisions may weaken governments’ resolve to undertake reforms. Special-interest groups that benefit from the continuation of distortionary policies that emerge during any process of economic reform may put pressure on the government (Mayer and Mourmouras, 2002).

The empirical literature on the determinants of IMF credit suffers from some drawbacks. First, a wide variety of variables has been suggested as determinants of IMF involvement and there is little consensus in the literature which variables really matter. Second, most authors do not carefully examine the sensitivity of their findings. Thus it is hard to tell whether the variables reported to be significant in a particular regression are really robustly related to the likelihood that a country has an agreement with the Fund. Third, although some papers include political variables, most studies do not offer a systematic analysis of the role that political factors may play.⁴ Authors, who take political factors into account, generally focus on a limited number of political variables.

The aim of this paper is to analyze to what extent various economic and political variables that have been suggested in the literature as influencing IMF decisions are robust determinants of the chance that a country receives credit supplied by the IMF or signs an adjustment program with the Fund. In line with most of the literature, we focus on binary choice models of IMF

¹*Financial Times*, May 3, 2004, p. 6.

²See Eijffinger and De Haan (1996) and Berger et al. (2001) for reviews of the literature on central bank independence.

³Mayer and Mourmouras (2002) have developed a model in which the Fund’s financing and the conditionality attached to it change the incentives of the borrowing government and affect the political-economy equilibrium in the recipient country. In this model government is subject to pressure by interest groups. Likewise, in Drazen’s (2001) model the government must contend with domestic veto players. The number and power of veto players depend on a country’s political and constitutional institutions.

⁴An exception is Rowlands (1995).

activity. For this purpose, we estimate a panel model for 118 countries over the period 1971–2000 relating dummy variables indicating IMF involvement to economic and political data.

We use the so-called “extreme bounds analysis” to examine to what extent variables are robust determinants of the likelihood that a country will receive IMF credit or signs an adjustment program in a particular year. To the best of our knowledge, this approach to check for the robustness of a relationship has not been used in this line of literature, although it has been widely employed in the economic growth literature. As pointed out by Temple (2000), presenting only the results of the model preferred by the author(s) of a particular paper can be misleading. Extreme bounds analysis is a fairly neutral means to check robustness and compare the validity of conflicting findings in empirical research.

Our results suggest that most of the political variables that have been put forward in previous studies on IMF involvement in a member country are non-significant. However, some political variables affect the likelihood that a member country signs an agreement with the IMF, while decisions on IMF credit disbursement are primarily based on economic considerations.

The remainder of the paper is organized as follows. Section 2 discusses the variables that we take into account on the basis of previous studies. Section 3 explains the modeling strategy, while section 4 contains the empirical results. The final section offers some concluding comments.

2. ECONOMIC AND POLITICAL DETERMINANTS OF IMF INVOLVEMENT

Appendix A1 summarizes all recent studies that we are aware of dealing with the determinants of IMF credit; for a review of the older literature, see Bird (1995) and Knight and Santaella (1997).⁵ These studies generally use a binary choice model (logit, probit) to distinguish between countries and time periods where an IMF program was in place and those where it was not, in order to determine which economic and political factors influenced IMF involvement.⁶ As Knight and Santaella (1997) point out, the regressions can be interpreted as the reduced form derived from the “demand” for an IMF program by a recipient country and the IMF’s “supply.”⁷ As we will point

⁵There is another line of literature that examines the impact of IMF adjustment programs; see Bird (2001) for a survey. See also Joyce (2004).

⁶Bird and Rowlands (2003b) have used non-parametric tests for 161 countries for the years 1965 to 2000. They find that countries that sign an IMF agreement have a significantly worse current account balance than other countries, although this pattern is time variant. Signing countries also had more problems with their reserves, especially if they had a more fixed exchange rate regime. High government budget deficits were also associated with an increasing likelihood of signing an agreement with the IMF.

⁷As far as we know, only four studies – Knight and Santaella (1997), Przeworski and Vreeland (2000), and Vreeland (1999, 2001) – have tried to disentangle both factors, but the separation of demand and supply factors in these studies remains a rather difficult task that has drawn severe criticism (see Dreher and Vaubel, 2004).

out below, previous studies have used a wide array of explanatory variables. Furthermore, the results for particular variables are often mixed.

On the basis of previous studies we have selected a number of **economic variables** for further empirical analysis. Selecting those variables that have been included in at least two studies gave the following list:

- International reserve holdings (excluding disbursed IMF loans) scaled to imports (*INTRESERV*). Countries with relatively low levels of international reserves relative to imports will be less able to meet balance of payments difficulties through reserve use and hence will be more likely to request and receive IMF credit (Knight and Santaella, 1997). This variable has been included in almost all studies summarized in Table A1 and is generally reported to have a significant coefficient.
- Real GDP growth (*GGDP*). Countries experiencing relatively weak growth in real GDP probably demand more credit. Various studies – including Barro and Lee (2002) and Dreher and Vaubel (2004) – find this variable to be significant, but Bird and Rowlands (2001) find that it is not. As there is a possible endogeneity problem with this variable, it enters with a one-period lag in our models (*GGDPI*).
- Debt service scaled to exports (*DEBTSERV*). A heavy debt burden relative to exports increases countries' need for external finance to service that debt. Many authors have included this variable in their models.⁸ The results for this variable are mixed, however. While, for instance, Rowlands (1995) finds it to be significant, Joyce (1992) concludes that it does not affect the chance that a country is involved in an IMF program.
- Current account balance/GDP (*CURACC*). A country that has a balance of payments need for financial resources will be more likely to demand IMF credit. The results for this variable are surprisingly mixed: various authors conclude that the balance of payment did not affect the chance that a country has an IMF program; see, for instance, Knight and Santaella (1997) and Vreeland (2001). Given the possible endogeneity problem with this variable, it enters with a one-period lag in our models (*CURACCI*).
- External debt/GDP (*DEBT*). A high debt ratio may not only lead to more demand for IMF credit, but also to more supply as a high debt ratio may give a country bargaining leverage over the IMF because of its importance for global financial stability (Thacker, 1999). On the other hand, a high debt ratio may reduce the creditworthiness of the country concerned. The results for this variable are, again, rather mixed. Whereas various studies – including Rowlands (1995) and

⁸Sometimes GDP is used as scaling factor; see, for instance, Vreeland (1999, 2001) and Przeworski and Vreeland (2000). We prefer using exports as a scaling factor as interest in outstanding debt will have to be paid for by the receipts from exports.

Thacker (1999) – find no effect of this variable, Bird and Rowlands (2001) find that it has a significant negative impact in their probit model. This variable is included with a one-period lag in our models as well (*DEBT1*).

- Income per capita (*GDPCAP*). Low-income countries may be more likely to seek Fund assistance.⁹ Interestingly, various authors report a negative impact of income per capita in their probit models, Rowlands (1995) and Barro and Lee (2002) being exceptions. The first study finds no effect, while the latter reports a positive impact, in combination with the square of GDP per capita, suggesting that the relationship is non-linear. In our model we use the lagged value of income per capita (*GDPCAP1*).
- Log of (1 + inflation) (*INFL*). Countries experiencing high inflation are more likely in need of IMF credit. However, the willingness of the IMF to provide funds may be lower in case of high inflation. The results for this variable vary from negative (Dreher and Vaubel, 2004), no effect (e.g., Joyce, 1992) to positive (Bird, 1995). Also this variable is included with a lag (*INFL1*).
- Lagged value of the growth rate of the nominal exchange rate vis-à-vis the US dollar (*XRATE1*). Countries faced with a speculative attack are more likely to turn to the IMF for assistance (Knight and Santaella, 1997).
- Lagged government budget deficit/GDP (*DEFICIT1*). Governments with high budget deficits are more likely to turn to the Fund (Przeworski and Vreeland, 2000).¹⁰ However, the Fund is more likely to enter into an arrangement with a country when its budget constraint is less binding. While some studies find no effect (see, e.g., Vreeland, 2001), others report a negative impact (see, e.g., Vreeland, 1999) of this variable.
- Lagged growth rate of the terms of trade (*GTOT1*). A worsening of a country's terms of trade is likely to weaken a country's external position, thereby increasing the likelihood that it will need to seek Fund assistance. Conway (1994) finds a negative impact of this variable, while Knight and Santaella (1997) find no effect.
- Lagged investment/GDP (*INVI*). A low ratio of investment to GDP may indicate limited access to international capital markets, thereby making it more likely that it requests Fund assistance. Knight and

⁹Knight and Santaella (1997) mention two reasons for this. First, poor countries have limited access to private international capital markets. Second, they may need technical assistance to develop well-functioning institutions. Some critics of the IMF would perhaps interpret a significant effect of an income variable as support for the claim that the IMF has become too much of an aid agency (Rowlands, 1995).

¹⁰Bird and Rowlands (2003b) conclude that ignoring fiscal imbalances is unacceptable in an analysis of IMF program adoption.

Santaella (1997), Vreeland (1999), Przeworski and Vreeland (2000), and Vreeland (2001) find support for this view.

- *LIBOR*. An increase in the world interest rate may cause countries to turn to the IMF for assistance.¹¹ Some authors report support for this view (e.g., Dreher and Vaubel, 2004), while others do not (e.g., Rowlands, 1995).
- Lagged government expenditure/GDP (*GOVSPENDI*). Some studies have included a variable for government spending which is sometimes also found to be significant (see, e.g., Joyce, 1992).

Turning to the IMF for financial assistance is a political decision (Bird and Rowlands, 2003a). However, for an IMF program to be agreed on, not only does a government have to apply for funds, but the IMF must also agree to the loan. From the demand as well as the supply side, the literature has suggested various **political factors** that may influence the decision-making process on IMF loans. In selecting political variables to be used in our empirical model, we will systematically discuss political factors that have been recently suggested in the literature and identify proxies that can be applied to test the various hypotheses. Many of the variables can be interpreted both as determinants of government's demand for IMF credit and as criteria by which the IMF may judge the creditworthiness of countries demanding credit.

It is well-known from the literature that there is a high degree of persistence in IMF involvement (Hutchison and Noy, 2003). To capture this, we follow Przeworski and Vreeland (2000) using the lag of a five-year moving average of a dummy indicating whether or not a country was under an agreement (*YRSUNDER5I*).

Not all countries that would be eligible to draw resources from the IMF would decide to do so to the extent that they perceive some loss of discretion over their choice of adjustment policy. Especially, as argued by Bird and Rowlands (2001), governments that perceive a large gap between their preferred policies and those expected in the context of IMF conditionality are the least likely to turn to the Fund. However, the more countries turn to the Fund, the less costly the "sovereignty costs" may be perceived to be. Following Przeworski and Vreeland (2000) we therefore include a variable reflecting the number of other countries in which the Fund is involved (*NRUNDER*).

Przeworski and Vreeland (2000) suggest that governments are more likely to enter an agreement early in the election term, hoping that any perceived stigma of signing an agreement will be forgiven or forgotten before the next elections. In other words, demand for IMF credit might be higher after election years. Przeworski and Vreeland (2000) report evidence in support of this view. While various safeguards against the misuse of IMF resources are

¹¹This argument only makes sense to the extent that interest rates on IMF loans are not market-related. This is true for the Poverty Reduction Growth Facility.

routinely incorporated into IMF lending programs, Dreher and Vaubel (2004) suggest that the availability of IMF credit might indirectly help to finance electoral campaigns. They find that net credit supplied by the IMF is generally higher around election time.¹² To test for the effect of elections, we include two election dummy variables: one for election years for the executive (*ELECEX*) and one for election years for the legislative (*ELEXLEG*). As previous studies argue that there should be an effect before and/or after the election, we take the lag and the lead of the election dummies.

The possibility of blaming the IMF for the necessary adjustment policies may be an incentive to resort to the Fund. By involving the Fund in the decision-making process, national politicians may be able to shield themselves from the political fall-out of unpopular policies (Vaubel, 1986). Countries with more unstable and polarized political systems will have more difficulties to arrange a credible adjustment program and will, therefore, have a higher incentive to turn to the Fund. In this way, they will obtain a seal of approval for a political program and, thus, gain in credibility. However, political costs to negotiate an IMF program might be higher in unstable and polarized countries. We have applied a number of proxies to capture this argument: the number of political assassinations (*ASSAS*), and revolutions (*REVOL*), and guerrilla problems (*GUERIL*), the (lagged) number of government crises (*CRISIS*),¹³ and instability within the government (*GOVCHANGE*). On the other hand, the IMF might be less willing to provide its seal of approval when there is less than full political support of such a program. The issue whether international organizations such as the IMF should or should not seek broad local support for the policies they endorse or incorporate in lending conditions is at the heart of the debate on “country ownership” (see, for instance, Helleiner, 2000). In the end, the existence and direction of the relationship between the above listed variables with the disbursement of IMF resources is, therefore, an empirical question.

In general, the decision to involve the IMF crucially depends on governments’ assessment of the political costs that may result from the adjustment policies. A high level of social unrest – proxied by three variables: the number of demonstrations (*DEMON*), strikes (*STRIKES*), and riots (*RIOTS*) – prior to the disbursement of IMF funds to a country might indicate a pronounced need for outside resources, no matter what strings are attached, to help calm an ongoing economic and political crisis.¹⁴

¹²Dreher (2004) reports that governments that conclude an IMF arrangement within 12 months prior to an election generally increase their re-election probability.

¹³As government crises may also occur due to an IMF stabilization program, we take the lagged value of crises to circumvent endogeneity.

¹⁴All these variables enter with a one-period lag. This also helps to avoid the possible endogeneity problem. Demonstrations, strikes, and riots may contemporaneously increase if the government has to take unpopular measures as part of an IMF stabilization program.

Another implication of this line of reasoning is that autocratic regimes – proxied by an executive index of competitiveness (*EXCOMP*) – will have a smaller incentive to request IMF assistance as they can more easily withstand unpopular adjustment programs; see Edwards and Santaella (1993); Bird and Rowlands (2001). On the other hand, Przeworski and Vreeland (2000) argue that as dictatorships are less constrained by public opinion and competitive elections, they may make easier negotiation partners for the IMF, and are therefore more likely to get credit. Which, if any argument prevails, is again an empirical question.

Political interests of its principal shareholders may be seen to influence decisions by the IMF. An 85 percent majority is required for the most important Fund decisions. Since voting power is – broadly speaking – allocated on the basis of economic size, the US (which controls 17.83 percent of the voting power in the IMF), as well as small coalitions of industrialized countries hold veto power in the Fund's decision-making (Thacker, 1999).¹⁵ Another argument as to how the interests of large industrial countries may influence IMF credit supply has been put forward by Oatley and Yackee (2000) and Oatley (2002). These papers find evidence suggesting that IMF lending decisions are responsive to these interests as larger loans went to countries in which commercial banks from industrial countries were highly exposed. Still, Oatley (2002) concludes that not all commercial banks benefit to the same degree. Commercial banks based in Japan do not seem to benefit at all, while banks based in France benefit less than banks based in Germany, the UK, the US, and Switzerland. We include in our model the variable *USBANKS* that shows the exposure of US banks to the various countries under consideration.¹⁶ We also include a variable reflecting the importance of the US as a trading partner: imports and exports from/to the US as share of total trade of a particular country (*TRADEUS*). It may also be true that the main stakeholders in the IMF have stronger preferences for countries in a certain region. For instance, the US may be more concerned with countries in Asia than in Africa, say. We therefore include *regional dummy* variables in our model.

Bird and Rowlands (2001) also suggest that the IMF could prefer lending in general to countries that are more liberal – proxied by *LIBERAL*, i.e., the total of the political rights index and the civil liberties index of Freedom House – and those with good governance – proxied by a corruption indicator (*CORRUPT*), a rule of law indicator (*RULELAW*), an indicator for the risk of repudiation of government contracts (*REPUDIATION*), and an

¹⁵There is evidence suggesting that the degree to which countries vote in line with the US in the General Assembly of the United Nations (UN) might affect the chance that a country will receive IMF credit (Thacker, 1999; Barro and Lee, 2002). Unfortunately, we could not test this hypothesis; at the time of writing we did not have access to the proper data.

¹⁶Data restrictions forced us to focus on US banks only.

indicator for the quality of the bureaucracy (*BURQUAL*). All these indicators are provided by the International Country Risk Guide (ICRG).

The size of a country requesting support may also matter: larger countries – proxied by (lagged) relative size, i.e., share in world GDP (*RELSIZE*) – may more easily get support to the extent that the “systemic” or “contagion” risk of a balance of payments problem in these countries is higher than in smaller countries.

Of course, the influence of a country in the IMF may also affect the chance that it will receive a loan. For given economic conditions, an IMF loan is more likely the higher the quota of a country. Following Barro and Lee (2002), we therefore include the country’s share of IMF quotas (*IMFQUOTA*) as an explanatory variable.

Finally, we have included variables reflecting supply considerations as suggested in some recent studies on the determinants of success and failure of IMF- or World Bank-supported programs. Dollar and Svensson (2000) conclude in their study of Bank-supported adjustment programs that success can be predicted by a small number of domestic political-economy variables, including ethnic divisions, government instability, and undemocratic governments. Likewise, Ivanova et al. (2003) conclude in their study of success and failure of IMF-supported programs that the strength of special interests in parliament, political cohesion, and ethnic diversity affect the probability of successful program implementation. Therefore, we have included the following variables:

- Ethnic fractionalization (*ETHNIC*). Ethnic fractionalization leads to conflict in society, which is a threat to reform efforts.
- Special interests (*INTERESTS*): the maximum share of seats in parliament held by parties representing special interests (religious, nationalistic, regional, and rural groups). This variable is also used by Ivanova et al. (2003).
- Political cohesion (*IPCOH*). Lower political cohesion introduces more uncertainty regarding the implementation of reforms.

Appendix A2 describes all variables employed in the present paper in more detail and gives the sources, while Appendix A3 summarizes the data. The correlation matrix (available on request) shows that the correlation between the variables is generally quite low, except for the inflation rate and the exchange rate.

3. MODELING APPROACH

We employ (variants) of the so-called extreme bounds analysis (EBA) as suggested by Leamer (1983) and Levine and Renelt (1992) to examine which explanatory variables are robustly related to our dependent variable. To the best of our knowledge, this has never been done before in the literature on

the determinants of IMF credit, although there are some very good reasons to apply this methodology.

The EBA has been widely used in the economic growth literature; see Sturm and de Haan (2005) for a further discussion. The central difficulty in this research – which also applies to the research topic of the present paper – is that several different models may all seem reasonable given the data, but yield different conclusions about the parameters of interest. Indeed, a glance at the studies summarized in Appendix A1 illustrates this point. The results of these studies sometimes differ substantially, while most authors do not offer a careful analysis to examine how sensitive their conclusions are with respect to model specification. As pointed out by Temple (2000), presenting only the results of the model preferred by the author can be misleading.

The EBA can be exemplified as follows. Equations of the following general form are estimated:

$$Y = \alpha M + \beta F + \gamma Z + u, \quad (1)$$

where Y is the dependent variable; M is a vector of “standard” explanatory variables; F is the variable of interest; Z is a vector of up to three (here we follow Levine and Renelt, 1992) possible additional explanatory variables, which according to the literature may be related to the dependent variable; and u is an error term. The extreme bounds test for variable F states that if the lower extreme bound for β – i.e., the lowest value for β minus two standard deviations – is negative, while the upper extreme bound for β – i.e., the highest value for β plus two standard deviations – is positive, the variable F is not robustly related to Y .

As argued by Temple (2000), it is rare in empirical research that we can say with certainty that some model dominates all other possibilities in all dimensions. In these circumstances, it makes sense to provide information about how sensitive the findings are to alternative modeling choices. The EBA provides a relatively simple means of doing exactly this. Still, the EBA has been criticized. Sala-i-Martin (1997a, 1997b) argues that the test applied in the extreme bounds analysis poses too rigid a threshold in most cases. If the distribution of β has some positive and some negative support, then one is bound to find at least one regression for which the estimated coefficient changes sign if enough regressions are run. We will therefore not only report the extreme bounds, but also the percentage of the regressions in which the coefficient of the variable F is significantly different from zero at the 5 percent level. Moreover, instead of analyzing just the extreme bounds of the estimates of the coefficient of a particular variable, we follow Sala-i-Martin’s (1997a, 1997b) suggestion to analyze the entire distribution. Following this suggestion, we not only report the unweighted parameter estimate of β and its standard deviation but also the unweighted cumulative distribution function [CDF(0)], i.e., the fraction of the cumulative distribution function

lying on one side of zero.¹⁷ We will base our conclusions on the Sala-i-Martin variant of the EBA.

Another objection to EBA is that the initial partition of variables in the M and in the Z vector is likely to be rather arbitrary. Still, as pointed out by Temple (2000), there is no reason why standard model selection procedures (such as testing down from a general specification) cannot be used in advance to identify variables that seem to be particularly relevant – an approach that we have followed as well. We use the 13 economic variables as discussed in section 2 (see Appendix A2) and a general-to-specific selection procedure to come up with our basic model. We first examine how robust this basic model is. Next, we check whether the other economic and political variables discussed in section 2 are robustly related to the chance that a country receives IMF credit or signs an IMF agreement.

4. RESULTS

4.1 *Explaining the Use of IMF Credit*

The first dependent variable considered is based on the “use of IMF credit” as reported in the World Bank Development Indicators 2003.¹⁸ We have created a dummy variable that is one when the use of IMF credit is positive. So, this variable measures whether or not a country receives IMF credit in a specific year.

Our dataset includes annual data for 118 IMF member countries over the period 1971 to 2000. We have employed a panel model and estimate binary choice probit models by maximum likelihood. We use White (1980) errors to correct for potential heteroskedasticity.

In line with the view that decision-making within the IMF should be primarily based on economic considerations, we start by identifying a basic model using standard model selection procedures (general to specific) using the 13 economic variables as discussed in section 2. An extensive analysis of the data based on a general-to-specific approach yielded the two variables that we selected for our M vector: international reserve holdings scaled to imports (*INTRESERV*) and lagged real GDP growth (*GGDPI*). These variables (or variables akin to these) are also present in most models of IMF

¹⁷Sala-i-Martin (1997a) proposes using the (integrated) likelihood to construct a weighted CDF(0). However, the varying number of observations in the regressions due to missing observations in some of the variables poses a problem. Sturm and de Haan (2002) show that as a result this goodness-of-fit measure may not be a good indicator of the probability that a model is the true model and the weights constructed in this way are not equi-variant for linear transformations in the dependent variable. Hence, changing scales will result in rather different outcomes and conclusions. We therefore restrict our attention to the unweighted version.

¹⁸The World Bank dataset is similar in most respects to the IFS dataset but offers a greater variety of variables with a political-economic interpretation. Alternative specifications of the dependent variable are used later on in this section.

lending behavior in the literature (compare Table A1 in the Appendix). A decrease in available international reserves signals pressure on the value of a national currency on the forex markets. Arguably, extending credit to member countries that experience exchange rate problems is part of the traditional IMF mission. A possible explanation of the negative correlation between IMF credit disbursement and real growth is that countries suffering a severe real shock are more likely to turn to the IMF for help. However, real shocks might also lead to financial and exchange rate crises (Allen and Gale, 2000), triggering IMF support for member countries.

Panel A of Table 1 shows the outcomes of the sensitivity analysis of the basic model. The first two columns show the extreme lower and upper bounds, while column (7) shows the specification of the models yielding the upper and lower extreme bounds. Column (3) reports the percentage of the regressions in which the coefficient of the variable of interest differs significantly from zero. Column (4) shows the CDF(0). Columns (5) and (6) present the unweighted parameter estimate of the variable of interest and its standard deviation, respectively.

It follows from Table 1 (Panel A) that the explanatory variables in the base model have an unweighted CDF(0) of close to 1 – satisfying the criterion suggested by Sala-i-Martin – and are significant in almost all regressions underlying this CDF(0). However, according to the very stringent EBA the variables do not qualify as being robustly related to our dependent variable, since the upper and lower bounds change sign – which illustrates the advantages of applying the Sala-i-Martin approach rather than the original EBA approach proposed by Leamer (1983).

Panel B of Table 1 presents the results of the sensitivity analysis for all other economic and political variables discussed in section 2. The correlation between the variables in the Z -vector is not unacceptably high, except for inflation and the growth rate of the nominal exchange rate. Panel C of Table 1 therefore shows the results for these variables if either inflation or the exchange rate is dropped.

In view of the long list of factors that have been claimed to influence IMF credit in previous studies it is quite remarkable that only a limited number of variables are actually robustly related to our dependent variable. To be more precise, apart from the variables in the base model (i.e., *INTRESERV* and *GGDPI*) only *DEBTSERV*, *CURACCI*, *GDPCAPI*, *INVEST1*, *YRSUNDER51*, and *REPUDIATION* have a CDF(0) > 0.95. The economic variables reflecting real activity, debt service and the current account position were also found to be significant in many other studies. Interestingly, IMF decision-making on credit disbursement is hardly, if at all, influenced by political factors. Moreover, the two political variables that seem to play a role here, *YRSUNDER51* and *REPUDIATION*, might well be interpreted as reflecting persistence of IMF involvement and default risk, respectively, and not so much purely political-economic factors.

TABLE 1 ECONOMIC AND POLITICAL DETERMINANTS OF IMF CREDIT: EXTREME BOUNDS ANALYSIS
(Dependent variable: dummy indicating that a country receives IMF credit in a particular year)

Variable	(1) Low. ext.	(2) Up. ext.	(3) % sign.	(4) CDF (0)	(5) Beta	(6) Std. dev.	(7) Variables in the model that yield the extreme				
							Lower bound				Upper bound
Panel A: Base model											
INTRESERV	-0.02	0.00	99.84	1.00	-0.010	0.002	GOVSPENDI	INTERESTS	INFLI	TRADEUS	REPUDIATION
GGDPPI	-0.08	0.01	99.54	1.00	-0.031	0.007	INFLI	USBANKS	GTOTI	REPUDIATION	INTERESTS
Panel B: Other variables											
DEBTSERV	-0.02	0.03	74.47	0.97	0.010	0.005	CURACCI	INTERESTS	GOVSPENDI	OECD	INTERESTS
CURACCI	-0.07	0.03	70.86	0.96	-0.016	0.006	REVOL	INTERESTS	DEBTI	USBANKS	INTERESTS
DEBTI	-0.01	0.01	41.83	0.86	0.001	0.001	DEFICITI	INTERESTS	USBANKS	OECD	INTERESTS
GDPCAPI	-0.48	0.10	94.90	1.00	-0.177	0.040	USBANKS	INTERESTS	TRADEUS	SAFRICA	REPUDIATION
INFLI	-0.02	0.01	8.96	0.57	-0.001	0.001	XRATEI	ASIAE	DEBTI	XRATEI	INTERESTS
XRATEI	-0.01	0.02	12.91	0.80	0.001	0.001	INFLI	INTERESTS	INFLI	USBANKS	OECD
DEFICITI	-0.11	0.03	60.33	0.90	-0.020	0.010	GOVSPENDI	ASIAE	DEBTI	USBANKS	INTERESTS
GTOTI	-0.02	0.01	55.46	0.93	-0.005	0.003	GOVSPENDI	INTERESTS	STRIKESI	REPUDIATION	INTERESTS
INVESTI	-0.05	0.03	69.15	0.96	-0.013	0.005	CURACCI	ASIAE	GUERIL	REPUDIATION	INTERESTS
LIBOR	-0.16	0.07	12.06	0.78	0.011	0.013	USBANKS	REPUDIATION	DEBTI	SAFRICA	CORRUPT
GOVSPENDI	-0.04	0.02	14.49	0.70	-0.004	0.004	DEFICITI	TRADEUS	GDPCAPI	USBANKS	SAFRICA
YRSUNDERSI	-0.28	0.77	87.22	0.99	0.300	0.095	DEFICITI	REPUDIATION	DEFICITI	ASSAS	USBANKS
NRUNDER	-0.03	0.04	47.35	0.80	-0.005	0.004	GOVSPENDI	BURQUAL	DEFICITI	ASSAS	USBANKS
ELECEX	-0.83	0.58	0.17	0.63	-0.046	0.126	GUERIL	YRSUNDERSI	DEFICITI	REPUDIATION	INTERESTS
ELECLEG	-0.50	0.39	0.00	0.57	-0.023	0.097	USBANKS	SAFRICA	DEFICITI	ELECLEG	ETHNIC
ELECEXLAG	-0.56	0.49	0.00	0.55	-0.019	0.126	GOVSPENDI	BURQUAL	DEFICITI	ELECLEGLAG	USBANKS
ELECLEGLAG	-0.33	0.57	7.41	0.78	0.087	0.096	GOVCHANGE	ELECEXLAG	DEFICITI	ELECLEGLAG	INTERESTS
ELECEXLEAD	-0.43	0.62	0.00	0.55	0.022	0.126	ELECEXLEAD	USBANKS	ELECEXLAG	SAFRICA	INTERESTS
ELECLEGLEAD	-0.35	0.54	0.13	0.59	0.027	0.097	ELECEXLEAD	GUERIL	DEFICITI	USBANKS	INTERESTS
ASSAS	-0.21	0.06	18.11	0.92	-0.052	0.031	GOVCHANGE	ASSAS	DEFICITI	USBANKS	INTERESTS
REVOL	-0.47	0.31	0.00	0.58	-0.024	0.083	NRUNDER	USBANKS	DEFICITI	CRISESI	USBANKS
GUERIL	-0.45	0.39	0.03	0.65	-0.039	0.087	REPUDIATION	REPUDIATION	DEFICITI	GUERIL	INTERESTS
CRISESI	-0.89	0.25	40.67	0.87	-0.184	0.103	GOVSPENDI	IMFQUOTA	ASSAS	TRADEUS	INTERESTS
							REPUDIATION	INTERESTS	CURACCI	ASSAS	ASIAE

Continued

TABLE 1 Continued

Variable	(1) (2) (3)			(4) (5) (6)			(7)			
	Low. ext.	Up. ext.	% sign.	CDF	Beta	% Std. dev.	Variables in the model that yield the extreme			
							Lower bound		Upper bound	
GOVCHANGE	-0.46	0.91	1.05	0.77	0.113	0.139	GTOTI	INTERESTS	OECD	INTERESTS
DEMONI	-0.09	0.12	0.62	0.59	-0.004	0.020	YRSUNDER51	ELECLEGLAG	ASSAS	INTERESTS
STRIKESI	-0.10	0.34	4.86	0.84	0.065	0.057	GTOTI	ELECEXLAG	ASSAS	TRADEUS
RIOTS1	-0.12	0.11	3.62	0.54	0.003	0.019	DEMONI	YRSUNDER51	DEFICITI	DEMONI
EXCOMP	-0.50	0.97	13.24	0.78	0.100	0.097	DEFICITI	USBANCS	REVOL	INTERESTS
USBANCS	-0.05	0.19	22.39	0.94	0.044	0.026	DEBTSERV	YRSUNDER51	GDPGAPI	RELSIZEI
TRADEUS	-0.01	0.02	27.10	0.80	-0.003	0.003	INFLI	USBANCS	ASIAE	INTERESTS
ASIAE	-0.91	0.62	7.26	0.75	-0.128	0.143	INFLI	GOVSPENDI	USBANCS	INTERESTS
OECD	-2.13	1.14	0.23	0.50	-0.045	0.326	GOVSPENDI	GUERIL	DEFICITI	INTERESTS
SAFRICA	-1.21	0.80	24.25	0.76	0.089	0.097	DEFICITI	USBANCS	CURACCI	STRIKESI
LIBERAL	-0.19	0.20	35.86	0.86	0.035	0.025	DEFICITI	ASIAE	USBANCS	INTERESTS
CORRUPT	-0.21	0.22	8.10	0.83	-0.046	0.042	CURACCI	ASSAS	USBANCS	INTERESTS
RULELAW	-0.22	0.24	7.11	0.69	-0.025	0.040	GOVSPENDI	ASSAS	GUERIL	INTERESTS
REPUDIATION	-0.26	0.00	99.97	1.00	-0.106	0.028	NRUNDER	RULELAW	GDPGAPI	REPUDIATION
BURQUAL	-0.31	0.15	29.16	0.89	-0.066	0.042	USBANCS	CORRUPT	DEBTI	SAFRICA
RELSIZE	-1.11	0.73	3.91	0.60	0.033	0.105	GOVSPENDI	USBANCS	REPUDIATION	INTERESTS
IMFQUOTA	-0.54	0.73	4.66	0.62	0.035	0.086	REPUDIATION	IMFQUOTA	IMFQUOTA	INTERESTS
ETHNIC	-0.14	0.16	0.01	0.66	-0.014	0.032	GOVSPENDI	RELSIZEI	USBANCS	INTERESTS
INTERESTS	-0.01	0.01	3.30	0.56	0.000	0.002	INFLI	USBANCS	GDPGAPI	INTERESTS
IPCOH	-0.33	0.28	0.60	0.68	-0.029	0.057	ASIAE	ASSAS	DEFICITI	SAFRICA
							BURQUAL	ASSAS	USBANCS	INTERESTS
Panel C1: EBA for INFLI in case XRATEI not in Z-vector										
INFLI	-0.01	0.00	3.12	0.54	0.000	0.001	DEFICITI	USBANCS	CURACCI	NRUNDER
INTRESERV	-0.02	0.00	98.14	1.00	-0.009	0.002	GOVSPENDI	SAFRICA	TRADEUS	REPUDIATION
GGDPI	-0.09	0.01	99.54	1.00	-0.032	0.008	GOVSPENDI	USBANCS	GTOTI	INTERESTS
Panel C2: EBA for XRATEI in case INFLI not in Z-vector										
XRATEI	0.00	0.00	6.90	0.78	0.001	0.001	GOVSPENDI	USBANCS	GDPGAPI	CRISESI
INTRESERV	-0.02	0.00	99.84	1.00	-0.010	0.002	GOVSPENDI	SAFRICA	GTOTI	REPUDIATION
GGDPI	-0.08	0.02	98.49	1.00	-0.027	0.007	GOVSPENDI	USBANCS	GTOTI	INTERESTS

Note: Each row is based upon 12,384 (Panel A) resp. 11,522 (Panels B, C1, C2) regressions.

Our conclusions are not influenced by the inclusion of either the exchange rate or inflation in the Z -vector. As follows from Panel C of Table 1, the $CDF(0)$ of inflation and the exchange rate do not exceed 0.95.

4.2 Explaining the Signing of IMF Agreements

As pointed out in section 2, a large number of previous studies focus on the likelihood that a country in a particular year has an **adjustment program** with the Fund. It should be interesting to see whether the results on IMF credit disbursement extend to an analysis of the determinants of the adoption of IMF agreements. To that end we apply the approach developed above to a new dummy variable indicating whether an IMF agreement was signed in a particular year.¹⁹ While we would expect the determinants of actual credit disbursement and the signing of IMF agreements to be similar, these two variables still describe two fairly distinct decisions: the signing of an agreement between the IMF and a member country and the disbursement of IMF credit to a particular member country. These decisions are likely to be influenced by different considerations. Furthermore, an agreement will often lead to more than one year of credit flows. Credit flows can be changed or interrupted if certain conditions specified in the adjustment program are not fulfilled. Finally, countries can borrow from the IMF up to their quota without an agreement.

Table 2 shows the results. We have employed the same basic model as in our previous analysis, i.e., *INTRESERV* and (lagged) *GGDP* are the explanatory variables. As shown in Panel A of Table 2, the variables in the basic model have a $CDF(0)$ larger than 0.95. Still, the $CDF(0)$'s and the percentage of the regressions in which the coefficients of *INTRESERV* and (lagged) *GGDP* are significant are somewhat lower than in Table 1.

Interestingly, it follows from Panel B of Table 2 that there are more variables, including some political variables, with a $CDF(0) > 0.95$. While some of the economic variables that we found to be robust before (*DEBT-SERV*, *INVESTI*) still are, others are not. The (lagged) current account (*CURACCI*) and *GDPAPI* are not as robustly related to the left-hand-side-variable as before. Our results suggest that – other than in the previous model – various political variables also affect the likelihood of IMF involvement in a member country. To be more precise, in addition to *YRSUNDER51*, the $CDF(0)$ of *GOVCHANGE*, *ELECLEGLAG*, *ELEXEXLAG*, and *ETHNIC* exceed 0.95, while *REPUDIATION* no longer plays a significant role. Based on the estimated average coefficients, our results suggest

¹⁹The Fund has different facilities, like stand-by arrangements (SBAs), the extended fund facility (EFF), the structural adjustment facility (SAF), and the enhanced structural adjustment facility (ESAF). Whenever there is an agreement signed in a particular year so that a country can borrow from any of these four facilities the dummy is one, and is zero otherwise. We thank Dane Rowlands for providing data that have been used to construct this dummy variable.

TABLE 2. ECONOMIC AND POLITICAL DETERMINANTS OF IMF INVOLVEMENT: EXTREME BOUNDS ANALYSIS
(Dependent variable: dummy indicating that a country signed an agreement with the IMF in a particular year)

Variable	(7)				Variables in the model that yield the extreme			
	(1) Low. ext.	(2) Up. ext.	(3) % sign.	(4) CDF	(5) Beta	(6) Std. dev.	Lower bound	Upper bound
Panel A: Base model								
INTRESERV	-0.02	0.00	99.86	1.00	-0.008	0.002	SAFRICA	SAFRICA
GGDPI	-0.07	0.02	97.89	1.00	-0.027	0.007	DEFICITI	ASIAE
Panel B: Other variables								
DEBTSERV	0.00	0.07	99.79	1.00	0.026	0.005	REPUDIATION	GOVSPENDI
CURACCI	-0.08	0.02	53.92	0.94	-0.013	0.006	USBANCS	DEBTI
DEBTI	0.00	0.01	37.68	0.86	0.001	0.001	USBANCS	USBANCS
GDPICAPI	-0.30	0.26	3.68	0.73	-0.030	0.042	USBANCS	REPUDIATION
INFLI	-0.01	0.02	7.50	0.62	0.000	0.001	RIOTSI	USBANCS
XRATEI	-0.01	0.01	20.66	0.75	0.001	0.001	USBANCS	XRATEI
DEFICITI	-0.05	0.06	2.23	0.51	0.001	0.009	ETHNIC	INFLI
GTOI	-0.02	0.01	19.80	0.75	-0.002	0.003	RIOTSI	GOVSPENDI
INVESTI	-0.05	0.03	81.30	0.98	-0.016	0.006	ETHNIC	USBANCS
LIBOR	-0.14	0.10	7.97	0.83	0.014	0.014	GOVSPENDI	ASIAE
GOVSPENDI	-0.03	0.02	0.29	0.58	-0.001	0.004	REPUDIATION	REPUDIATION
YRSUNDER5I	0.04	1.11	100.00	1.00	0.641	0.104	USBANCS	USBANCS
ELECEX	-0.02	0.04	6.27	0.56	0.000	0.004	ETHNIC	DEFICITI
ELECEX	-0.91	0.58	1.40	0.80	-0.133	0.138	ETHNIC	YRSUNDER5I
ELECEX	-0.28	1.09	97.06	1.00	0.385	1.128	ETHNIC	DEFICITI
ELECEX	-0.30	0.81	81.31	0.98	0.264	0.101	ELECEX	DEFICITI
ELECEX	-0.43	0.72	18.90	0.93	0.200	0.129	ELECEX	ASSAS
ELECEX	-0.38	0.65	2.62	0.80	0.102	0.102	ELECEX	DEFICITI
ASSAS	-0.20	0.10	0.03	0.58	-0.013	0.034	REPUDIATION	GOVSPENDI
REVOL	-0.32	0.50	0.53	0.73	0.059	0.087	REPUDIATION	GOVSPENDI
							SAFRICA	SAFRICA
							ASIAE	ASIAE
							GOVSPENDI	GOVSPENDI
							DEBTI	DEBTI
							USBANCS	USBANCS
							REPUDIATION	REPUDIATION
							XRATEI	XRATEI
							INFLI	INFLI
							GOVSPENDI	GOVSPENDI
							USBANCS	USBANCS
							ASIAE	ASIAE
							DEFICITI	DEFICITI
							YRSUNDER5I	YRSUNDER5I
							DEFICITI	DEFICITI
							ASSAS	ASSAS
							DEFICITI	DEFICITI
							ELECEX	ELECEX
							GOVSPENDI	GOVSPENDI
							ELECEX	ELECEX
							DEFICITI	DEFICITI
							BURQUAL	BURQUAL
							USBANCS	USBANCS
							USBANCS	USBANCS
							DEBTSERV	DEBTSERV
							ETHNIC	ETHNIC

GUERIL	-0.56	0.37	1.09	0.72	-0.070	0.094	USBANKS	REPUTATION	INTERESTS	ASSAS	TRADEUS	INTERESTS
CRISESI	-0.94	0.27	39.94	0.90	-0.201	0.117	DEFICITI	REPUTATION	INTERESTS	DEFICITI	ELECLEGLAG	INTERESTS
GOVCHANGE	-0.43	1.06	39.92	0.95	0.266	0.145	ELECLEGLAG	CORRUPT	INTERESTS	USBANKS	OED	INTERESTS
DEMONI	-0.08	0.13	0.08	0.53	-0.001	0.020	GTOI	YRSUNDER51	BURQUAL	DEFICITI	RIOTSI	USBANKS
STRIKESI	-0.24	0.23	0.00	0.54	-0.007	0.060	INFLI	USBANKS	ASIAE	CURACCI	DEBTI	DEFICITI
RIOTSI	-0.19	0.07	14.62	0.86	-0.031	0.023	DEMONI	USBANKS	ASIAE	DEBTSERV	RELSIZEI	INTERESTS
EXCOMP	-0.48	1.45	0.96	0.53	0.008	0.105	DEFICITI	ASSAS	LIBERAL	GOVSPENDI	CORRUPT	INTERESTS
USBANKS	-0.10	0.18	2.29	0.77	0.024	0.028	DEBTSERVE	REVOL	ETHNIC	NRUNDER	RELSIZEI	INTERESTS
TRADEUS	-0.01	0.01	0.01	0.67	-0.001	0.003	REVOL	ASIAE	INTERESTS	USBANKS	CORRUPT	INTERESTS
ASIAE	-1.08	0.45	21.78	0.85	-0.233	0.161	USBANKS	INTERESTS	IPCOH	DEBTI	INVESTI	ASSAS
OED	-1.77	1.36	0.00	0.53	-0.053	0.348	GTOI	GOVCHANGE	TRADEUS	GTOI	YRSUNDER51	GUERIL
SAFRICA	-0.97	0.59	3.78	0.63	0.045	0.103	GOVSPENDI	USBANKS	INTERESTS	REVOL	TRADEUS	INTERESTS
LIBERAL	-0.22	0.13	0.03	0.59	-0.008	0.027	USBANKS	BURQUAL	INTERESTS	INFLI	ELECLEGLAG	INTERESTS
CORRUPT	-0.16	0.33	1.04	0.79	0.042	0.046	DEFICITI	GOVSPENDI	USBANKS	REVOL	BURQUAL	INTERESTS
RULELAW	-0.17	0.29	2.46	0.75	0.034	0.043	DEFICITI	USBANKS	ETHNIC	REVOL	REPUTATION	INTERESTS
REPUTATION	-0.22	0.07	21.47	0.91	-0.046	0.029	DEFICITI	USBANKS	INTERESTS	DEBTI	INVESTI	LIBOR
BURQUAL	-0.30	0.21	1.65	0.57	-0.012	0.044	DEFICITI	CORRUPT	INTERESTS	DEBTI	REVOL	INTERESTS
RELSIZE	-1.21	0.60	4.83	0.80	-0.127	0.123	INFLI	USBANKS	IMFUOTA	GOVSPENDI	IMFUOTA	INTERESTS
IMFUOTA	-0.72	0.62	5.71	0.70	-0.068	0.094	USBANKS	CORRUPT	INTERESTS	CRISESI	USBANKS	RELSIZEI
ETHNIC	-0.06	0.23	48.47	0.96	0.067	0.034	DEFICITI	CORRUPT	INTERESTS	USBANKS	REPUTATION	INTERESTS
INTERESTS	-0.01	0.01	16.43	0.91	-0.003	0.002	GOVSPENDI	YRSUNDER51	RIOTSI	USBANKS	REPUTATION	INTERESTS
IPCOH	-0.20	0.38	8.53	0.79	0.057	0.060	ELECLEGLAG	USBANKS	REPUTATION	CURACCI	GOVSPENDI	TRADEUS
								OED	ETHNIC	CRISESI	ASIAE	INTERESTS
Panel C1: EBA for INFLI in case XRATEI not in Z-vector												
INFLI	-0.01	0.01	2.83	0.63	0.000	0.001	DEBTSERV	GOVSPENDI	ETHNIC	CURACCI	GDPGAPI	INTERESTS
INTRESERV	-0.03	0.00	99.50	1.00	-0.012	0.002	ELECEXLG	USBANKS	INTERESTS	GOVSPENDI	TRADEUS	REPUTATION
GGDPI	-0.08	0.02	97.78	1.00	-0.035	0.008	DEBTSERV	DEFICITI	USBANKS	GUERIL	REPUTATION	INTERESTS
Panel C2: EBA for XRATEI in case INFLI not in Z-vector												
XRATEI	0.00	0.00	6.84	0.55	0.000	0.001	DEBTSERV	GOVSPENDI	ETHNIC	GDPGAPI	ASSAS	INTERESTS
INTRESERV	-0.03	0.00	99.85	1.00	-0.013	0.002	ELECEXLG	USBANKS	INTERESTS	GOVSPENDI	TRADEUS	REPUTATION
GGDPI	-0.08	0.02	97.96	1.00	-0.033	0.008	DEBTSERV	DEFICITI	USBANKS	GUERIL	REPUTATION	INTERESTS

Note: Each row is based upon 12,384 (Panel A) resp. 11,522 (Panels B, C1, C2) regressions.

that elections increase the likelihood that an agreement with the IMF will be signed.²⁰ A plausible interpretation – and in line with our results with respect to *GOVCHANGE*²¹ – is that new governments are more likely to agree to the conditionality encompassed in IMF lending agreements. Somewhat surprisingly, Table 2 also reports a positive coefficient for *ETHNIC* – a result that is not particularly robust, however (see below).

Overall, it would seem that political-economic considerations – in particular changes in government – play quite an important role when it comes to signing an agreement between the IMF and a member country, while decisions on credit disbursement seem to be primarily based on economic considerations.

4.3 Robustness Checks

To test the robustness of our conclusions, we conducted further sensitivity analyses. First, we split the overall sample along the time dimension. Arguably, the world has changed considerably since the end of the 1980s and this may also have affected IMF policies. Broadly speaking, our general conclusions are similar in the pre-1989 and the post-1989 sub-samples. Still, in the model of the likelihood that a country receives an IMF loan some variables do not have the same impact in the two sample periods. For instance, the CDF(0) of *GDPCAPI* drops to 0.90 in the period before 1989, suggesting that income levels have become more important in IMF credit policies post-1989. The CDF(0) of *XRATE1* in the period before 1989 is 0.99 while the CDF(0) of *DEBT1* is 0.96, suggesting that exchange rate and debt crises may have been more important in the earlier days in receiving IMF loans than in more recent periods. Overall, however, the findings on credit disbursement are remarkably stable across the split sample. The results for the model of the likelihood that an agreement with the IMF is signed change even less. The only major difference is that in the period after 1989 the CDF(0) of the variable *CRISES1* becomes 0.98; the coefficient of the variable is negative, in line with the theoretical prediction.

Second, we have dropped large credits from the analysis.²² The decision-making process about huge loans to countries like Brazil, Turkey, Argentina, and Korea may have been very different from that of loans that are of a

²⁰Focusing on the fraction of a year within six months around election dates, Dreher (2004) finds that new programs are significantly less likely prior to an election. The share of a year falling within six months after an election does not significantly affect program conclusions.

²¹The CDF(0) of *GOVCHANGE* is 0.95, suggesting that – given the positive sign of the average coefficient estimate – countries with many government changes are more likely to sign an agreement with the IMF. Specific results are available on request.

²²All observations with an increase in outstanding IMF credit > 2.5 percent of GDP (which in the baseline model implies roughly 2.5 percent of all observations) were dropped from the sample. Specific results are available on request.

“going-concern” nature. However, it turned out that the results reported in Table 1 hardly change. In two cases the CDF(0) drops slightly to below 0.95 [*DEBTSEV* (0.94), *CURACCI* (0.94)], while in two other cases the CDF(0) is now above 0.95 [*GTOTI* (0.96) and *USBANKS* (0.96)]. If we drop the same observations and redo the regressions yielding Table 2, we find even fewer changes [the CDF(0) of *ETHNIC* drops to 0.93, while the CDF(0) of *ELECEXLEAD* rises to 0.95].

5. CONCLUDING COMMENTS

The activities of the IMF continue to draw attention both in the public sphere and among economists and political scientists. In recent years, the discussion has increasingly focused on political-economic factors possibly influencing IMF lending. However, despite an abundance of empirical research investigating the interaction of various political factors and IMF behavior, there is hardly a consensus which of these forces might matter, casting doubt on the general robustness of these results. To some extent this is also true for the question of which economic variables are robustly linked to IMF activity. The present paper provides a robustness analysis of both economic and political determinants of IMF activity.

A first result is that IMF agreements are more likely to be concluded and IMF credit is more likely to be disbursed when real economic activity is depressed and current account problems arise. This finding supports the idea that the IMF is (still) pursuing its traditional goal of fostering economic and balance-of-payment stability among its members.

Second, we find that political-economic factors influence IMF activity, but only to a minor degree. In fact, many of the political variables reported in the empirical literature to influence the Fund's behaviour are not significantly related to either IMF lending or the conclusion of IMF agreements.

Third, to the extent that political variables matter, there is a remarkable difference between factors helping to explain the conclusion of IMF agreements and the disbursement of IMF credit. It would seem that political factors – especially elections – play a significant role in the conclusion of IMF agreements. Elections increase the probability of an IMF agreement being concluded. However, the likelihood that a country actually receives IMF credit is primarily driven by economic considerations. According to our analysis, the only not strictly economic variables that have some importance in explaining IMF credit disbursement are the presence of IMF programs in the past five years, indicating persistence of IMF involvement, and the risk of repudiation. The higher the risk of repudiation, the less likely it is that a country receives IMF credit.

An interesting question arises: why do political factors seem to matter more for the conclusion of IMF agreements than for the actual disbursement

of IMF credit? A possible explanation is the greater post-election willingness of governments to embrace IMF conditionality: from a demand-side perspective new governments are more likely to invest their political capital into an IMF-supported adjustment program than governments later in their term because they are more likely to enjoy the fruits of their efforts. For the same reason the Fund might deem new governments more credible “owners” of the adjustment packages attached to the typical IMF agreement. Our results suggest that, once signed, credit disbursement is conditional primarily on economic conditions.

Finally, it is important to point out some limitations of our study. Although we have included a long list of variables, we have not checked for non-linearities of political variables. Also some hypotheses could not be tested yet due to lack of data. So, even though we believe that our work is a major improvement over existing work, there is still more work to be done.

Study	Type of model	Economic variables included	Effect	Political variables included	Effect	
Joyce (1992)	Logit analysis of participation in IMF program; 45 countries; 1980–84	Growth CB holdings of dom. assets	+	No political variables included		
		Gov. expenditure/GDP	+			
		Current account/exports	-			
		Inflation	0			
		Reserves/exports	-			
		GDP per capita	-			
		Private loans/imports	0			
		Debt service/exports	0			
		Relative GDP per capita	-		Political strikes, riots, demonstrations	0
		Change in real exchange rate	0		Political assassinations, attacks, deaths	0
Edwards and Santaella (1993)	Probit analysis of participation in IMF program; 48 countries; 1948–71	Change in current account deficit	0			
		Net foreign assets ratio	-	Frequency of coup attempts	+	
Conway (1994)	Tobit/probit analysis of participation in IMF program; 74 countries; 1976–86	Reserves/imports	-	Dictatorial regime	-	
		Contractual date of expiration of IMF program	+	Ideology indicator	0	
		Growth rate GNP	-	No political variables included		

APPENDIX A1 *Continued*

Study	Type of model	Economic variables included	Effect	Political variables included	Effect
Rowlands (1995)	Probit analysis of signing of IMF agreement; 109 countries; 1973-89	Current account/GNP	+		
		World real interest rate	-		
		Terms of trade	-		
		International debt	+		
		Share of output from agriculture	0		
		Per capita GDP relative to US	0	Political freedom	0
		Population	0	Unrest/conflict dummy	0
		Dummy for eligible for SAF/ESAF	0	Concessional loans (soc. orientation)	0
		Debt service/exports (official and private)	+	US assistance	0
		Debt (official and private)	0	Industrial country's exports	-
		(Change to previous year's reserves/imports)	-	Share in world imports	+
		Change export earnings	-	Voting power in IMF	0
		Payment restrictions	+	Regional dummies	+
		Inflation	0	Dummy previous IMF program	+
(Growth rate of) GDP	0				
LIBOR	-				
Debt rescheduling (official and private)	+				
Payment arrears	0				

Bird (1995)	Drawings on IMF; 40 countries; 1980–85	Debt service ratio	0	No political variables included
		Inflation	+	
		GDP per capita	–	
		Real imports	+	
		Balance of payments/(exports + imports)	0	
		New private loans/imports	+	
		Reserves/imports (reserves)	0 (+)	
		Reserves/imports	–	No political variables included
		Current account/GDP	0	
		Inflation	0	
		Debt service/exports	+	
		External debt/GDP	0	
		Non-Fund financing/imports	0	
		Growth GDP per capita	–	
		Growth of terms of trade	0	
		Growth export markets	0	
		Investment/GDP	–	
		Balance of payments/GDP	0	
		Real effective exchange rate	–	
		GDP per capita	–	
		Previous Fund arrangement	+	
		Nominal depreciation > 5%	+	
		Change in gov. revenues/GDP	+	
Knight and Santaella (1997) ^a	Probit model for approval of IMF arrangement; 91 countries; 1973–91			

APPENDIX A1 *Continued*

Study	Type of model	Economic variables included	Effect	Political variables included	Effect
		Change in gov. expenditures/ GDP	-		
		Growth in real domestic credit	0		
		Arrears to IMF	0		
		IMF arrangement	0		
		(Change in) balance of payments	-	US exports to a country	0
		(Change in) current account	0	US direct investment in a country	0
		(Change in) debt/GNP	0	Index for political agreement with US	+/-0
		(Change in) debt service/GNP	+	Movement in political agreement	+
		(Change in) reserves/debt	-	Energy production	0
		GNP per capita	-	Democracy indicators	0
		Default dummy	+		
		Money supply (growth)	0		
		Budget deficit	0		
		Openness	0		
		Foreign reserves/imports	-	Years under IMF program	+
		Debt service/GDP	+	Number of other countries under IMF program	+/-
		Investment/GDP	-		
		Budget deficit/GDP	-		
		Balance of payments/GDP (in model for IMF willingness to start program)	-	Lagged election Dictatorial regime	+
Thacker (1999)	Logit analysis of participation in IMF program; 78 countries; 1985-94				
Vreeland (1999)	Probit model for participation in IMF program				

Oatley and Yackee (2000)	Model for amount of credit (in SDR), 1986–98 (stand-by and extended Fund facility)	GNP	+	Two US bank exposure measures (Bank)	+
		External debt/GDP	0	US alignment based on UN voting (Foreign)	+/-0
		Current account/GDP	0	Bank*Foreign	+/-0
		Current account/reserves	0		
		External debt/exports	0		
		Reserves/imports	-		
		Loan dummies	-		
		Dummies for countries with exceptional crisis	+		
Przeworski and Vreeland (2000) ^b	Probit model; 135 countries; 1951–90	Reserves/import	-	Years under IMF program	+
		Budget deficit/GDP	-	Other countries in IMF program	+
		Debt service/GDP	+	Election in previous year	+
		Investment/GDP	-	Dictatorship	+
		Real balance of payments	-	Pre- and post-election dummies	+
Dreher and Vaubel (2004)	New credit by IMF/GDP; 106 countries; 1971–97	Monetary expansion	-	Democratic regime dummy	-
		Budget deficit/GDP	-		
		Government consumption/GDP	0		
		Real GDP growth	-		
		Inflation	-		
		Reserves/imports	-		
		Foreign short-term private debt/foreign debt	+		
		FDI/GDP	-		
		Current account/GDP	-		
		LIBOR	+		

APPENDIX A1 *Continued*

Study	Type of model	Economic variables included	Effect	Political variables included	Effect
Bird and Rowlands (2001)	Probit model; 80 countries; 1965–95	Share exports to other IMF-supported countries	+		
		War dummy	-		
		IMF quota review dummy	+		
		GNP per capita	-	Exports US/France	-/0
		GDP growth	0	Communist links	-
		Reserves/imports	-	Recent government	0
		Current account/GDP	-	Level civil freedom	0
		Change in reserves	-	Change civil freedom	+
		Real exchange rate	+/-	Coup frequency	+
		Debt service ratio	+	Past incomplete programs	0
		Change in debt service	0	Imminent quota review	0
		Debt/GDP	-	IMF liquidity	0
		Arrears/debt	0	Real GDP	0
		Past reschedulings	+	Imminent rescheduling	+
		Real LIBOR	0	Imminent new government	-
Change in real LIBOR	+	Past IMF agreements	+		
Vreeland (2001)	Probit model for participation in IMF program; 179 countries; 1975–96	GDP per capita	-	(Log of) number of veto players	+
		Foreign reserves/imports	-	Type of democratic executive-legislative relationship	+

Current account/GDP	0	Number of other	-
Debt service/GDP	+	countries under IMF	
Investment/GDP	-	program (in model for	
Budget deficit/GDP	0	IMF willingness to	
Balance of payments/GDP	-	start program)	
interacted with size (in model			
for IMF willingness to start			
program)			
External debt	+ /0	Political ally of US	0
External debt/GNP	+	(based on UN voting)	
Current account	-	Change in UN voting	0
Current account/GNP	+	Commercial bank debt	+
Debt service/exports	- /0	(excl. Japan)	
Standby arrangement	-	Commercial bank debt	+
IMF credit	+ /0	US	
World Bank credit	- /0	Commercial bank debt	+
		UK	
		Commercial bank debt	+
		Germany	
		Commercial bank debt	+
		Switzerland	
		Commercial bank debt	+
		France	
		Commercial bank debt	-
		Japan	

IMF CREDIT

APPENDIX A1 *Continued*

Study	Type of model	Economic variables included	Effect	Political variables included	Effect
Barro and Lee (2002)	Probit/Tobit models for approval of short-term stabilization program and participation in IMF program; 131 countries; 1975–99 using five-year intervals	Currency crisis	+	Share of IMF quotas	+
		Banking crisis	+	Country's nationals among IMF staff	+
		GDP per capita	+	Fraction of votes cast in UN along with US	+
		Square of GDP per capita	-		
		Foreign reserves/imports	-		
		Growth rate of GDP	-		
Dreher (2004)	Probit model for conclusion of IMF program; 54 countries; 1976–97	Monetary expansion	0	Part of year is within six months prior to election	-
		Expansion of overall budget deficit	0		
		Government consumption/GDP	+	Part of year is after six months prior to election	0
		Change in real GDP growth	0		
		Short-term/total debt	0		
		Inflation	0		
		Change of reserves/monthly imports	-		
		Current account balance	0		
		Quota review	0		
		LIBOR	0		

^aThe results for the bivariate probit model are shown.

^bThe results for the determinants of entering an IMF program are shown.

APPENDIX A2. LIST OF VARIABLES AND THEIR SOURCES

Variable	Sign	Description	Source
<i>DUMIMFCRED</i>		Dummy equal to one if "Use of IMF credit (DOD, current US\$)" is larger than zero	World Bank 2003 CD-ROM
<i>NEWCONTRACT</i>		Dummy indicating years in which an IMF agreement/program was signed	Rowlands dataset
<i>INTRESERV</i>	(-)	International reserves (current US\$)/imports of goods and services (current US\$)	World Bank 2003 CD-ROM
<i>GGDP</i>	(-)	Growth of real GDP	World Bank 2003 CD-ROM
<i>DEBTSERV</i>	(+)	Total debt service (% of exports of goods and services)	World Bank 2003 CD-ROM
<i>CURACC</i>	(-)	Current account balance (% of GDP)	World Bank 2003 CD-ROM
<i>DEBT</i>	(?)	External debt, total (DOD, current US\$)/GDP at market prices (current US\$)	World Bank 2003 CD-ROM
<i>GDP CAP</i>	(-)	Log (GDP at market prices (constant 1995 US\$)/population)	World Bank 2003 CD-ROM
<i>INFL</i>	(?)	Log (1 + inflation (consumer prices))	World Bank 2003 CD-ROM
<i>XRATE</i>	(+)	Growth rate of nominal exchange rate vis-à-vis \$	World Bank 2003 CD-ROM
<i>DEFICIT</i>	(?)	Overall budget deficit, including grants (% of GDP)	World Bank 2003 CD-ROM
<i>GTOT</i>	(-)	Growth rate of terms of trade	World Bank 2003 CD-ROM
<i>INVEST</i>	(-)	Gross domestic fixed investment (% of GDP)	World Bank 2003 CD-ROM
<i>LIBOR</i>	(+)	LIBOR: three-month rate	IFS June 2002
<i>GOVSPEND</i>	(+)	Total government expenditure (% GDP)	World Bank 2003 CD-ROM
<i>YRSUNDER5</i>	(+)	Five-year moving average of dummy indicating that a country was under an agreement	Rowlands dataset

APPENDIX A2 *Continued*

Variable	Sign	Description	Source
<i>NRUNDER</i>	(+)	Sum of the countries under an agreement	Rowlands dataset
<i>ELECEX</i>	(+)	Dummy for executive election-years	World Bank database of political institutions, version 2
<i>ELECLEG</i>	(+)	Dummy for legislative election-years	World Bank database of political institutions, version 2
<i>ELECEXLAG</i>	(+)	Lag of <i>ELECEX</i>	World Bank database of political institutions, version 2
<i>ELECLEGLAG</i>	(+)	Lag of <i>ELECLEG</i>	World Bank database of political institutions, version 2
<i>ELECEXLEAD</i>	(+)	Lead of <i>ELECEX</i>	World Bank database of political institutions, version 2
<i>ELECLEGLEAD</i>	(+)	Lead of <i>ELECLEG</i>	World Bank database of political institutions, version 2
<i>ASSAS</i>	(+)	Number of politically motivated murders or attempted murders of high government officials or politicians	Banks' International Archive
<i>REVOL</i>	(+)	Number of revolutions (illegal or forced changes in the top governmental elite, attempts at such changes, or (un)successful armed rebellions)	Banks' International Archive

<i>GUERIL</i>	(+)	Guerrilla warfare: any armed activity, sabotage, or bombings aimed at the overthrow of the present regime	Banks' International Archive
<i>CRISES</i>	(+)	Number of major government crises that threaten to bring the downfall of the present regime	World Bank database of political institutions, version 2
<i>GOVCHANGE</i>	(+)	Percentage of veto players who drop from the government	Banks' International Archive
<i>DEMON STRIKES</i>	(+)	Number of peaceful anti-government demonstrations	Banks' International Archive
	(+)	Number of strikes (1,000 or more workers) aimed at national government policies or authority	Banks' International Archive
<i>RIOTS</i>	(+)	Number of violent demonstrations or clashes of more than 100 citizens	Banks' International Archive
<i>ECXOMP</i>	(?)	Measure of dictatorship (executive index of electoral competitiveness ≤ 2)	World Bank database of political institutions, version 2
<i>USBANKS</i>	(+)	Exposure of US banks	Treasury Bulletin
<i>TRADEUS</i>	(+)	Trade relations with US (export to and import from US/total export and import)	OECD ICTS database, World Bank 2000 CD-ROM
<i>ASIAE, OECD, SAFRICA</i>	(?)	Regional dummies	...
<i>LIBERAL</i>	(+)	(Political rights index + Civil liberties index)/2	Freedom House
<i>CORRUPT</i>	(-)	Indicator for corruption in government	International Country Risk Guide (ICRG) Data

APPENDIX A2 *Continued*

Variable	Sign	Description	Source
<i>RULELAW</i>	(+)	Rule of law (law and order tradition) indicator	International Country Risk Guide (ICRG) Data
<i>REPUDIATION</i>	(-)	Indicator for repudiation risk of government contracts	International Country Risk Guide (ICRG) Data
<i>BURQUAL</i>	(+)	Indicator for bureaucratic quality	International Country Risk Guide (ICRG) Data
<i>RELSIZE</i>	(+)	Relative size of country (GDP/World GDP)	World Bank 2003 CD-ROM
<i>IMFQUOTA</i>	(+)	Share of IMF quota	IMF
<i>ETHNIC</i>	(-)	Presence of ethnic tensions	International Country Risk Guide (ICRG) Data
<i>INTERESTS</i>	(-)	= (special-interest groups in government + opposition)/ (# government + opposition seats)	World Bank database of political institutions, version 2
<i>IPCOH</i>	(-)	Index of political cohesion	World Bank database of political institutions, version 2

Notes: The expected sign is shown in parentheses. See main text for further explanation. The World Bank database of political institutions is described in Beck et al. (1999).

APPENDIX A3. DESCRIPTIVE STATISTICS

Variable	Mean	St. dev.	Min.	Max.	No. obs.	No. countries	Start	End
<i>DUMIMFCRED</i>	0.35	0.48	0.00	1.00	2,598	118	1971	2000
<i>NEWCONTRACT</i>	0.21	0.40	0.00	1.00	2,598	117	1971	2000
<i>INTRESERV</i>	27.70	27.92	0.02	329.06	2,606	118	1971	2000
<i>GGDPJ</i>	3.55	6.26	-42.45	71.19	2,606	118	1971	2000
<i>DEBTSERV</i>	6.04	8.32	0.00	179.37	2,575	118	1971	2000
<i>CURACCI</i>	-5.25	8.77	-132.80	31.98	2,149	117	1971	2000
<i>DEBTJ</i>	53.71	52.09	0.00	544.92	2,562	118	1971	2000
<i>GDPFCAPI</i>	6.90	1.09	4.44	9.41	2,606	118	1971	2000
<i>INFLI</i>	19.08	39.20	-13.99	547.53	2,286	113	1971	2000
<i>XRATEI</i>	13.40	37.34	-70.32	616.31	2,489	116	1972	2000
<i>DEFICITI</i>	-3.92	5.87	-64.49	20.63	1,731	111	1971	2000
<i>GTOTI</i>	-0.50	14.68	-103.15	87.38	2,246	107	1972	2000
<i>INVESTI</i>	22.46	9.06	-3.40	113.58	2,557	116	1971	2000
<i>LIBOR</i>	7.75	3.10	3.29	16.87	2,606	118	1971	2000
<i>GOVSPENDI</i>	26.58	15.94	4.72	198.58	1,735	111	1971	2000
<i>YRSUNDER51</i>	0.42	0.41	0.00	1.00	2,332	117	1975	2000
<i>NRUNDER</i>	49.02	17.10	18.00	74.00	2,606	118	1971	2000
<i>ELECEX</i>	0.10	0.30	0.00	1.00	1,935	109	1975	1997
<i>ELECLEG</i>	0.19	0.39	0.00	1.00	1,935	109	1975	1997
<i>ELECEXLAG</i>	0.10	0.29	0.00	1.00	1,955	109	1976	1998
<i>ELECLEGLAG</i>	0.19	0.39	0.00	1.00	1,955	109	1976	1998
<i>ELECEXLEAD</i>	0.10	0.29	0.00	1.00	1,908	108	1974	1996
<i>ELECLEGLEAD</i>	0.19	0.39	0.00	1.00	1,908	108	1974	1996
<i>ASSAS</i>	0.31	1.34	0.00	25.00	1,981	113	1971	1994

Continued

APPENDIX A3 *Continued*

Variable	Mean	St. dev.	Min.	Max.	No. obs.	No. countries	Start	End
<i>REVOL</i>	0.20	0.48	0.00	3.00	1,981	113	1971	1994
<i>GUERIL</i>	0.19	0.53	0.00	12.00	1,981	113	1971	1994
<i>CRISESI</i>	0.16	0.51	0.00	7.00	2,075	115	1971	1995
<i>GOVCHANGE</i>	0.12	0.29	0.00	1.00	1,839	109	1976	1997
<i>DEMONI</i>	0.63	1.82	0.00	26.00	2,074	115	1971	1995
<i>STRIKESI</i>	0.18	0.61	0.00	7.00	2,075	115	1971	1995
<i>RIOTSI</i>	0.54	1.91	0.00	26.00	2,075	115	1971	1995
<i>ECXOMP</i>	0.28	0.45	0.00	1.00	1,941	109	1975	1997
<i>USBANKS</i>	0.57	1.64	0.00	13.73	1,075	108	1983	1995
<i>TRADEUS</i>	16.83	16.17	0.00	85.11	1,846	111	1980	2000
<i>ASIAE</i>	0.09	0.29	0.00	1.00	1,915	71	1971	2000
<i>OECD</i>	0.02	0.12	0.00	1.00	1,915	71	1971	2000
<i>SAFRICA</i>	0.37	0.48	0.00	1.00	1,915	71	1971	2000
<i>LIBERAL</i>	4.18	1.72	1.00	11.50	2,422	115	1973	2000
<i>CORRUPT</i>	2.77	1.11	0.00	6.00	1,060	78	1982	1997
<i>RULELAW</i>	2.84	1.30	0.00	6.00	1,060	78	1982	1997
<i>REPUDIATION</i>	5.91	1.91	1.00	10.00	1,060	78	1982	1997
<i>BURQUAL</i>	2.70	1.13	0.00	6.00	1,060	78	1982	1997
<i>RELSIZEI</i>	0.18	0.41	0.00	3.23	2,604	118	1971	2000
<i>IMFQUOTA</i>	0.30	0.50	0.00	3.26	2,589	116	1971	2000
<i>ETHNIC</i>	3.61	1.49	0.00	6.00	1,060	78	1982	1997
<i>INTERESTS</i>	14.61	31.41	0.00	100.00	1,005	93	1975	1997
<i>IPCOH</i>	0.39	0.68	0.00	3.00	1,938	109	1975	1997

Notes: The sample is determined by the availability of the dependent variables and the variables included in the base model. The last two columns show the earliest and latest year in which data for that particular variable are available. The column before that shows the number of countries for which that particular variable is available. A “1” following the variable indicates the first lag of the variable concerned.

ACKNOWLEDGMENTS

Part of this research was done while de Haan was visiting professor at the Free University in Berlin (Bundesbank chair). We would like to thank participants in a seminar at De Nederlandsche Bank and the referee for helpful comments on a previous version of the paper.

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