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Many happy returns? Recidivism and the IMF

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Abstract

IMF programs are designed to provide a temporary source of finance for countries with balance of payments disequilibria. Consequently, borrowing from the IMF should occur infrequently and be widely distributed among member countries. However, some countries are recurrent users of Fund resources. This paper investigates which variables account for multiple borrowings from the IMF. We use models of count data to examine the impact of the need for financing, domestic policies, external shocks, and structural and institutional factors on borrowings between 1980 and 1996. We find that recidivist borrowers have lower reserve holdings, larger current account deficits and capital outflows, lower but less volatile terms of trade, larger debt service and external debt ratios, lower investment rates and per-capita income, and weak governance.
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1. Introduction

The International Monetary Fund (IMF) was established at Bretton Woods in 1944 as an interim source of external finance for member countries with exceptional balance of payments needs. The first of the IMF's Articles of Agreement outlines the Fund's purposes, which include:

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(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund, therefore, was designed to provide financial support while the necessary changes in economic policy were implemented. Over time, a balance of payments deficit would be eliminated, or at least become sustainable, and the IMF's assistance would no longer be needed. In these circumstances borrowing from the IMF would be a low frequency event, and the Fund's resources would revolve as envisaged in the Articles.

In reality, member countries can be divided into three groups: non-users, infrequent users and frequent or multiple users. The non-users either avoid balance of payments deficits or finance them through private borrowing. The infrequent users also usually avert deficits or have access to private capital markets because of their strong creditworthiness. However, occasionally they face balance of payments crises and during these periods they are forced to turn to the IMF because their riskiness as perceived in the private markets increases. For these countries, the IMF is a lender of last resort, to be used only when other sources of external finance are unavailable. Once the crisis passes and adjustment is carried out, their access to the private international capital markets is restored, which makes any future balance of payments deficit sustainable.

In contrast to these two groups are those countries which are frequent or multiple users of IMF credit. These economies have recurring balance of payments problems but little access to capital markets, and turn to the Fund on a regular basis. In such cases there are elements of "recidivism" in the use of Fund resources.

Recidivism in this context raises complex issues. Recidivism usually carries connotations of habitual relapse, as into crime. But is it the case that IMF recidivists are countries that persistently mismanage their resources? Or do other factors, such as external shocks or structural characteristics, distinguish these countries? What does recidivism imply about conditionality and program design?

While a number of studies have observed the phenomenon of multiple use of Fund credit, none has examined IMF recidivism in any detail. This paper sets out to fill this gap by utilizing models with count data to identify the characteristics of those countries that make repeated use of Fund resources. The next section presents an analytical framework of the factors that may affect the rate of recidivism. The evidence of recidivism is presented in Section 3, and the methodology utilized in the empirical analysis is explained in Section 4. The empirical results are presented in Section 5. Section 6 offers some conclusions and implications.

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