Need for Speed
The Lending Responsiveness of the IMF

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IMF as ILLR

- Bagehot: LLR “should lend to all that bring good securities quickly, freely, and readily.”

- *Speed* arguably as important as liquidity itself (Bordo & James 2000; Fernandes-Arias 2010)

- IMF has poor reputation as “rapid responder” (Fischer 1999; Schwartz 2002)

- How responsive is the IMF?
Mr. Jacques de Larosière  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. de Larosière:

1. Annexed hereto is a Memorandum of Understanding on Economic Policy describing the economic program that the Government of Bolivia intends to pursue in the 12-month period ending March 31, 1987 and the quantitative targets it expects to achieve in the remainder of 1986. The primary objective of the Government is to lay the basis for a sustainable reactivation of the economy within the context of domestic price stability and a viable balance of payments. To this end, the Government has adopted policies aimed at reducing the nonfinancial public sector deficit and at ensuring an adequate level of external competitiveness. These policies will need to be supported by the restructuring of external debt and the arranging of new financing at concessional terms.

Executive Board approved request on 6/19/1986 = loan approval period of 21 days

La Paz, Bolivia  
May 29, 1986
The Dependent Variable

Figure 1: Days from Loan Request to Approval
Central Question

- Why does the Executive Board approve some requests more swiftly than others?
Scheduling a Vote

• Managing Director or First Deputy Managing Director schedule requests for consideration by board

• Board has *minimum circulation period* to review loan program (4 weeks prior to 1996; 2 weeks thereafter)

• Borrowers can request circulation period be waived

• IMF responsiveness is a function of:
  1. priority given to a request by the (First Deputy) Managing Director
  2. in some cases, a borrower’s willingness to ask for a waiver
Potential Influence of G-5

• G-5 countries: France, Germany, Japan, U.K., U.S.

• Only IMF members with permanent seats on Board

• 5 of 6 Managing Directors during 1984-2009 period hail from G-5 countries (France: 4, Germany: 1); 22 of 26 years

• First Deputy Managing Director always an American
G-5 Interests & IMF Speed

• I assume that the G-5 countries preference for IMF credits that effectively “catalyze” private financing will increase as their commercial banks become more exposed to a borrower.

• Techniques used by the Fund to catalyze financing
  • affect IMF responsiveness
  • affect IMF responsiveness in different directions depending on the era in which a loan was requested
Changes in Catalytic Financing

• 1980s:
  • Developing country financial systems (relatively) closed
  • Int’l capital flows dominated by small number of western banks (Copelovitch 2010)
  • IMF adopts “concerted lending” strategy 1982-1987 to catalyze private financial flows

• Late-1980s and beyond:
  • Developing countries begin to liberalize capital account
  • Int’l capital flows grow more disaggregated, heterogeneous (Copelovitch 2010)
  • Large and fast credits needed to calm markets, catalyze lending (Guitian 1995; Boughton 2000)
IMF is getting faster

Figure 2: Loan Approval Periods by Year, 1984-2009
Hypotheses

1. Increased G-5 bank exposure should be associated with *longer* waits during the LDC crisis “concerted lending” years

   - **time period**
     - concerted lending
   - **G-5 bank exposure**
     - high
     - low
   - **expected outcome**
     - longer wait
     - shorter wait

2. Increased G-5 bank exposure should be associated with *shorter* waits in subsequent years

   - **time period**
     - post-concerted lending
   - **G-5 bank exposure**
     - high
     - low
   - **expected outcome**
     - shorter wait
     - longer wait
Research Design

• Sample: 275 SBA and EFF requests from 1984-2009

• Key covariates:
  1. **G5Bank** – log G-5 banks combined foreign claims\(_{i,t-1}\)
  2. **Conlend** – 1 if year<1988, 0 otherwise

• Controls: GDP, GDP per capita, requests per month, circulation period dummy, under program, currency crisis, # of crises worldwide, G5 foreign aid, G5 UN voting affinity, Polity, election, regional dummies, linear time trend

• Cox proportional hazard
Figure 3. Cox Proportional Hazard Coefficient Estimates
FIGURES 4 & 5: Survival Curve & First Difference Estimates as G-5 Bank Exposure varies from -1SD to +1SD

Conlend = 1

Conlend = 0
Conclusions

• (1) IMF has become more responsive over time, (2) yet, Board does not apply the same level of urgency to all requests

• G-5 countries influence IMF responsiveness in ways that systematically relate to their national financial interests

• Effect of G-5 interests flips depending on structure of international financial system, catalytic financing strategy

• G-5 countries get what they want, but what they want changes