Discussion of:
"Conditionality in Official Lending: Compliance through strategic assessment"
by Clancy, Erce, Lenarcic, and Marimon

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Fiscal Policy Seminar 2021 "One year through the COVID-19 crisis"
Paris, 9-10 November 2021

Summary

- This paper:

  "what explains the likelihood of compliance with official loan conditionality?"

- When are official loans successful? When their plan comes together...

- ESM data on European sovereign debt crises (Greece, Portugal, Cyprus, Ireland)

- Selection model to decompose the compliance process into

  1. The **creditor's decision to assess a condition**

  $$d_j = \delta z_j + \nu_j$$

  2. The **debtor's decision to comply** with it

  $$s_j = \beta x_j + \epsilon_j$$

  Heckman correction with Mills ratio

Summary

Results:

- ▶ **Assessment**: number of conditions (-), GDP nowcast (+), spread (+!), disbursement (+), fiscal (-)
- ▶ **Delay**: GDP nowcast (+!), nowcast update (-!), disbursement (+), fiscal (-)
- ▶ **Fulfilment**: numerical (+), number of conditions (-), GDP nowcast update (+), fiscal (+), **Inverse Mills ratio**

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Broad conclusions:

1. Conditions set ex-ante makes loan conditionality difficult to enforce
2. Compliance is greater for quantifiable loan conditions
3. Efforts to boost the productive capacity of the economy should be less prescriptive

1. Are all the programmes born equal?

Table 1: **Distribution of loan conditions by sector and country (%)**

	Financial	Fiscal	Fiscal-Structural	Structural Labour	Structural Product	Other	Total Obs
				a. Total			
Cyprus	0.537	0.077	0.186	0.082	0.094	0.025	1.000
Greece	0.080	0.022	0.567	0.041	0.260	0.030	1.000
Ireland	0.672	0.063	0.089	0.054	0.085	0.037	1.000
Portugal	0.108	0.151	0.415	0.050	0.276	0.000	1.000

▶ The Cypriot and Irish programmes target financial sector

▶ Greek and Portuguese programmes focussed on fiscal

▶ Pooled regression?

▶ Marginal Approach? Complex packages… number of conditions, related to the severity, lack of trust, political constraints etc…

2. Delays – What is happening with the nowcasting?

	(0.059)	(0.087)	(0.155)
Numerical · Continuous	-0.228	-0.403	**-0.533***
	(0.480)	(0.473)	(0.307)
GDP growth nowcast	-0.141***	-0.147***	**0.690***
	(0.014)	(0.020)	(0.052)
Nowcast update	-0.391***	-0.387***	**-0.371***
	(0.054)	(0.079)	(0.086)
Spread at assessement	-0.205***	-0.216***	-0.012
	(0.017)	(0.021)	(0.125)

▶ How is the nowcast update computed?
▶ Bias in institutional forecast?
▶ Is it part of the information set at time t?
▶ Reverse causality?!

3. Are fiscal measure different?

Numerical · Continuous	0.356	0.248	0.361*	0.341	0.278
	(0.222)	(0.224)	(0.205)	(0.213)	(0.205)
GDP growth nowcast	-0.113***	-0.112***	0.023	-0.128***	0.271***
	(0.017)	(0.017)	(0.021)	(0.018)	(0.045)
Nowcast error	-0.203***	-0.207***	-0.204***	-0.173***	-0.070
	(0.029)	(0.030)	(0.048)	(0.030)	(0.055)
Spread at assessment	-0.065***	-0.064***	0.062**	-0.059***	0.063**
	(0.015)	(0.015)	(0.025)	(0.016)	(0.027)
Next disbursement-to-GDP	12.983***	12.923***	15.214***	12.229***	14.266***
	(0.730)	(0.728)	(0.957)	(0.789)	(1.028)
Financial		-0.180			-0.222
		(0.153)			(0.147)
Fiscal		-0.809***			-0.743***
		(0.190)			(0.188)
Fiscal-structural		-0.083			-0.018
		(0.145)			(0.139)

- ▶ Fiscal 'nature' of measures always matter
- ▶ Measures of GDP matter but not always as expected
- ▶ (Exclusion restriction: nowcast GDP?!)
- ▶ The macroeconomic effects of the programmes and how this feeds back onto assessment/fulfilment/delay