Chapter 1
Are IMF Stabilization Programs in the European Union Disastrous?
From the Maastricht Treaty up to Recent Bailouts

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ABSTRACT
This chapter examines the effectiveness of Stabilizing Programs in the European Union for the time period from the Maastricht Treaty in 1993 to 2013 (the recent bailouts of Greece, Ireland, and Portugal). A binary logistic model is used which specifies binomial as the distribution and logit as the link function, using an unbalanced panel of annual data. Two main conclusions emerge: a) the probabilities of an economic recession, a high debt to GDP ratio, and a high current account deficit to GDP ratio, are greater when a Stabilization Program is adopted than without one, and b) a Stabilization Program has a negative short-run effect on the GDP growth rate, as well as negative long-run effects (8 years after the adoption) on the debt to GDP ratio and the current account deficit to GDP ratio.

INTRODUCTION
Economic crises and economic instability in the European Union (EU) has always been a crucial issue to be resolved (Baldwin et al. 2010; Dadush et al. 2010). Dealing with the debt crisis in European economies beyond any peculiarities that presents at a national level, it depends mainly on the common economic policy followed. Significant fiscal adjustments have been achieved in the past in several European countries (Alcidi and Gros 2010), but there are doubts about whether a harsh austerity program can stabilize the public debt (Wyplosz 2010). A Stabilization Program (SP) is expected to reduce the rate of growth of nominal GDP, worsening the conditions of external debt. This expectation raises the

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question of whether debt and deficits should be cut using austerity programs, or to pursue expansionary fiscal policy by applying Keynesian models.

Since 1993 (the establishment of the Maastricht Treaty), many programs have occurred in EU member states by the International Monetary Fund and more recently by the Troika. During the period from 1993 up to the outbreak of the debt crisis in 2008, the SPs were small, short-lasting, and effective. However, from 2008 up to 2013 bailout programs are developed, being much larger, long-lasting and less successful (e.g., the case of Greece) than the previous.

In this chapter, the short-, medium- and long-run effects of IMF SPs are investigated, on three objectives that represent the economic performance of the economies; the growth rate, the debt to GDP ratio and the current account deficit to GDP ratio. The analysis regards the European Union for the period from the Maastricht Treaty on 1993 up to 2013 (the recent bailouts of Greece, Ireland, and Portugal).

The contribution of the chapter to the literature of the effectiveness of SPs lies, in the first place, in that it investigates the effects of the adoption of SPs in three objectives that describe in a general perspective the economic performance of the economies. Furthermore, the chapter evaluates the effectiveness of the programs not only at a few finite time points after the program period but over the entire time horizon to capture the short as well as the long-run impact of the programs. Finally, through the methodology employed and the period under consideration, the chapter estimates the probabilities of a negative development on the three objectives with and without a SP.

The order of the chapter is as follows. Firstly, there is a literature review on the implementation of SPs and an evaluation of their effectiveness. Secondly, the data used are described as well as the methodology employed and the empirical model. Then the empirical work and the discussion of the results are presented. Finally, the chapter ends by giving the conclusion of the overall analysis.

THEORETICAL BACKGROUND

The International Monetary Fund (IMF) has always had a unique position within the “global financial safety net”, i.e., the set of institutions and mechanisms that provide financial support to countries to prevent or dampen financial crises (Essers and Ide 2019). The IMF has always had a significant presence in Europe too (see Table 1 presented in the next section), but most of its international role has upgraded after its participation in the bailouts of Greece, Portugal, and Ireland. Actually, after 2008 IMF conducts SPs in cooperation with EU (in October 2008 Hungary requested a Stand-By Arrangement (SBA) first joint EU/IMF-program, a precedent for programs that followed in Latvia on December 2008 and in Romania in March 2009) (IMF 2008; IMF 2009; IMF 2011; Seitz and Jost 2012). More recently, a new mechanism, the Troika (IMF together with the European Commission and the European Central Bank), was developed. It was involved in the rescue actions of the European Union to fight the sovereign debt crisis in several European countries, elaborating their economic adjustment programs and closely monitoring their progress (Greece, Ireland, and Portugal).

As Kostis et al. (2016) point out, most European countries have faced—and many still face—big problems since the outbreak of the recent economic crisis. However, among the countries that implemented consolidation programs, considerable differences exist concerning the causes of the crisis. For instance, the main reasons for the outbreak of the crisis in Greece were its fiscal problem, its problematic banking sector, the balance of payments deficit, and lack of competitiveness. Ireland became involved in the crisis due to the difficulties in its housing market, its high private debt, and the significant increase in public