

ANNEX 8

Composition of Targeted Changes in Expenditures and External Financing in IMF-Supported Programs

The Composition of Programmed Fiscal Adjustment

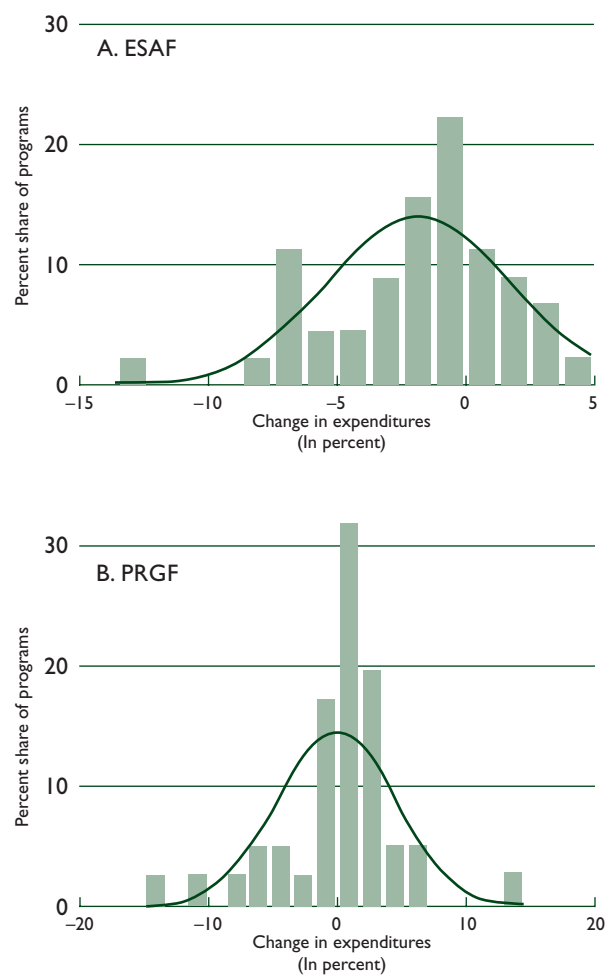
As discussed in Chapter 4, *PRGF-supported programs target, on average, greater increases in revenues and smaller expenditure cuts than their ESAF counterparts*. These results are reinforced by looking at the distribution of targeted changes in expenditures in ESAF- and PRGF-supported programs. Figure A8.1 shows that whereas most ESAF arrangements project expenditure reductions (Panel A), a majority of PRGF-supported programs accommodate higher expenditures (Panel B).

Another way of studying the evolution of projected revenues and expenditures in PRGF-supported programs is to regress the programmed change in expenditures (or revenues) on a number of variables that might be expected to affect these targets (i.e., previous expenditure/revenue levels, GDP growth, targeted fiscal adjustment, etc.) and include a dummy variable to measure the impact of PRGF-supported programs. The dummy variable should capture changes in programmed expenditures (or

revenues) due to the introduction of the PRGF, controlling for other factors that might be expected to influence the setting of expenditure (or revenue) targets. The results of this exercise suggest that, *holding all else constant, PRGF-supported programs target total expenditure levels about 1.6 percent of GDP higher than their ESAF counterparts*. Similarly, controlling for all else, PRGF-supported programs target a similar increase in revenues.

The Availability of External Financing

Figure A8.2 shows that there is a great degree of variability in the projected amounts of net external public sector financing in both ESAF- and PRGF-supported programs. However, the center of the distribution shifts substantially to the right in the case of PRGF-supported programs. On average, while PRGF-supported programs project increases in the availability of external budget financing in the first two program years, they project a strong decline in the third year.

Figure A8.1. Distribution of Programs According to the Targeted Change in Expenditures**Figure A8.2. Distribution of Projected Changes in the Availability of Grants and Concessional Loans in ESAF- and PRGF-Supported Programs**