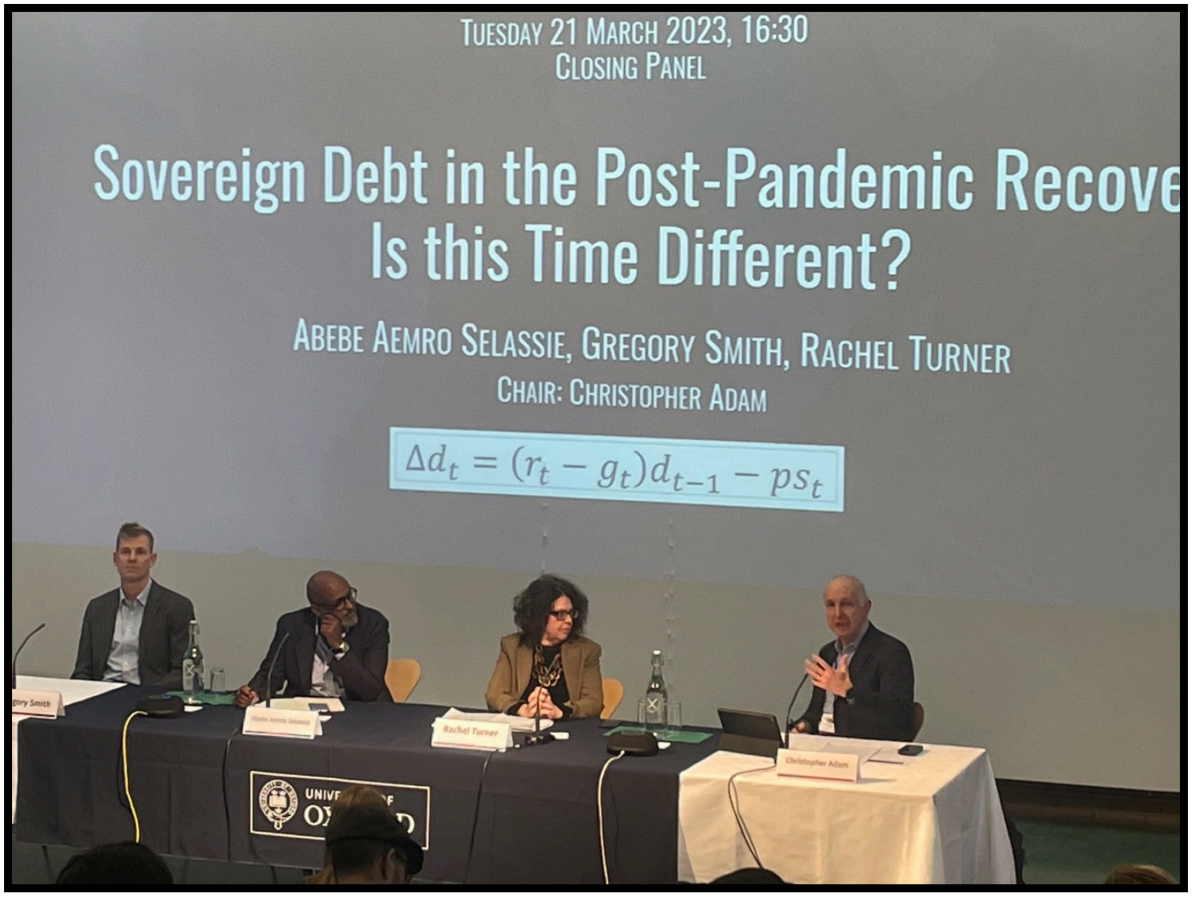
The Primary Fiscal Balance—What is the Right Medium-Term Target Number? 1/
(Or Orthodox fiscal roots of stagnation and underdevelopment.)

I. INTRODUCTION

The most notable aspect of this question is how seldom it is posed.

That scarcity is remarkable as, reflecting the standard debt equation, it resides at the intersection of all fiscal sustainability and revenue and expenditure policy, everywhere. And it is absolutely central to all sovereign debt restructurings including those underway in Zambia, Sri Lanka, Ghana, Suriname, Ethiopia, Somalia, and, for the entire first half of the 2010s, Greece.

Exceptionally, a recent keynote discussion on African debt at Oxford University was conducted literally under the shadow of that equation (see picture below), with distinguished speakers intoning that after structural reforms have raised "g" and a credible policy framework have lowered "r", medium-term target primary balances are merely a matter of maths. The implication is that those who insist on eventual fiscal consolidation are neither uncaring nor incompetent but are merely facing facts.



1/ Im grateful to seminar participants at the Universities of York and the West Indies, and at the ODI, IMF, and IBRD, and the Tunis Monetary Sovereignty Conference for discussion of Jamaica, and to discussants at the NIESR and to Ndongo Samba Sylla for their assessments of the global analysis. The usual disclaimers apply.

But having thus asserted their personal bona-fides, even those speakers immediately pivoted from any actual numbers to platitudes, including the more familiar fiscal notions of overall or day-to-day balance, or debt which are typically embedded in fiscal frameworks.

By contrast, this paper aims to determine the right numbers for targets beyond the cycle for the balance of consolidated government revenue and non-interest expenditure—the primary balance.

It aims to answer that question now for the 160 or so countries, from the most modest to the richest, for which IMF fiscal data in the Fall 2023 WEO—on which the paper is entirely based—allow. It also aims to assess how many countries are saddled with "wrong" primary balance targets, which countries they are, and to establish orders of magnitude for the output costs of such errors.

It finds that the IMF—meaning throughout, unless otherwise stated, its decision-making body, its Executive Board—is setting excessively restrictive medium-term primary balance targets in over half the countries of the world, including almost all current sovereign debt restructuring cases and current programs—and excessively loose targets in much of the Rich World, at deep cost to output.

Immediate correction on substance and procedure is detailed and advocated for all principal interests concerned, including the IMF Board, development institutions, and development and climate activists.

II. IMF ESTIMATES

Given scarcity of analysis of medium-term primary balance targets, the default answer concerning the right number when that question has to be answered—notably during sovereign debt restructuring negotiations—is, effectively, "whatever the IMF says it is".

So what does the IMF say the right targets are now?

It gives its answer in each vintage of its WEO, which by construction yields global equilibrium in the last year of its "forecast". So the fifth year out projections by the IMF for the primary balance of all its members are its estimate of the appropriate medium-term target for each of them.

Those numbers for 2028, from the Fall 2023 vintage of the WEO, are shown in Figure 1 below.

Figure 1—which reports for all countries excluding the 20 or so with oil value added over 4 percentage points of GDP in 2019 (listed in Annex 1), and excluding the few countries for which the IMF does not provide estimates—indicates a very substantial target range, from plus 5 to minus 5 percent of GDP, with some with deficits even larger than 5.

But before those numbers are assumed to be authoritative, note that many of those medium-term targets have changed substantially since the immediate prior vintage of the WEO just six months prior. Those changes are shown on the same scale and country ordering as above, in Figure 2.

Figure I. IMF Proposed Medium-Term Primary Balance Targets, Fall 2023 vintage

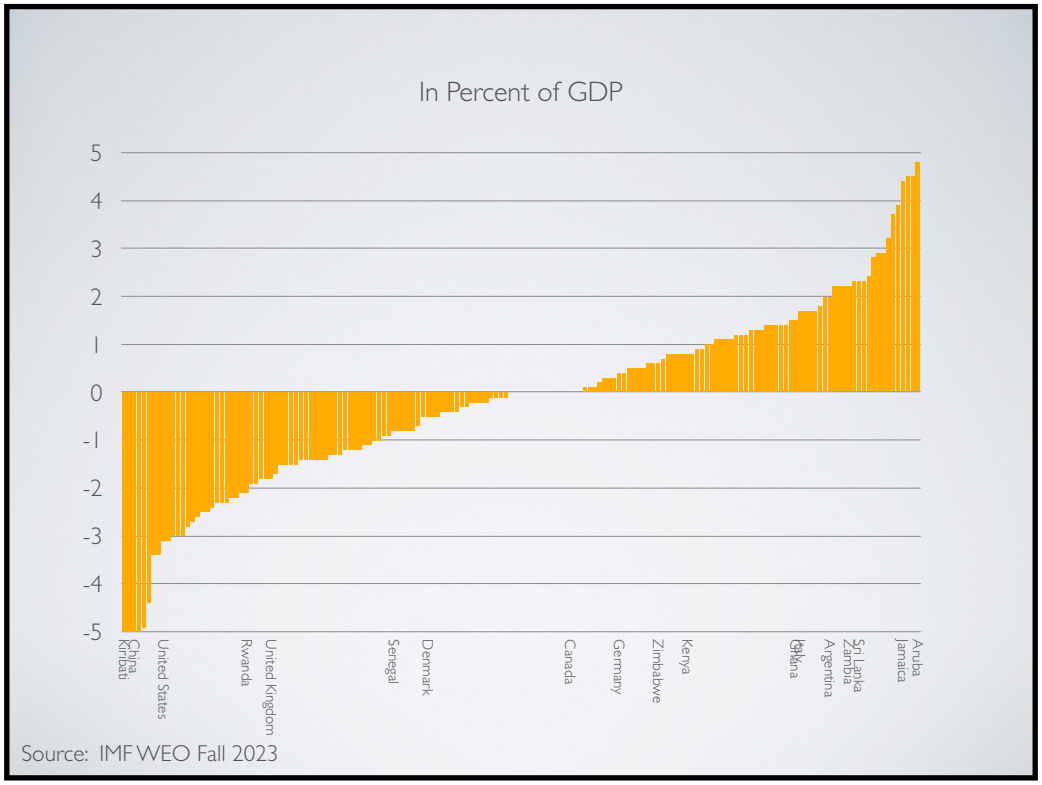
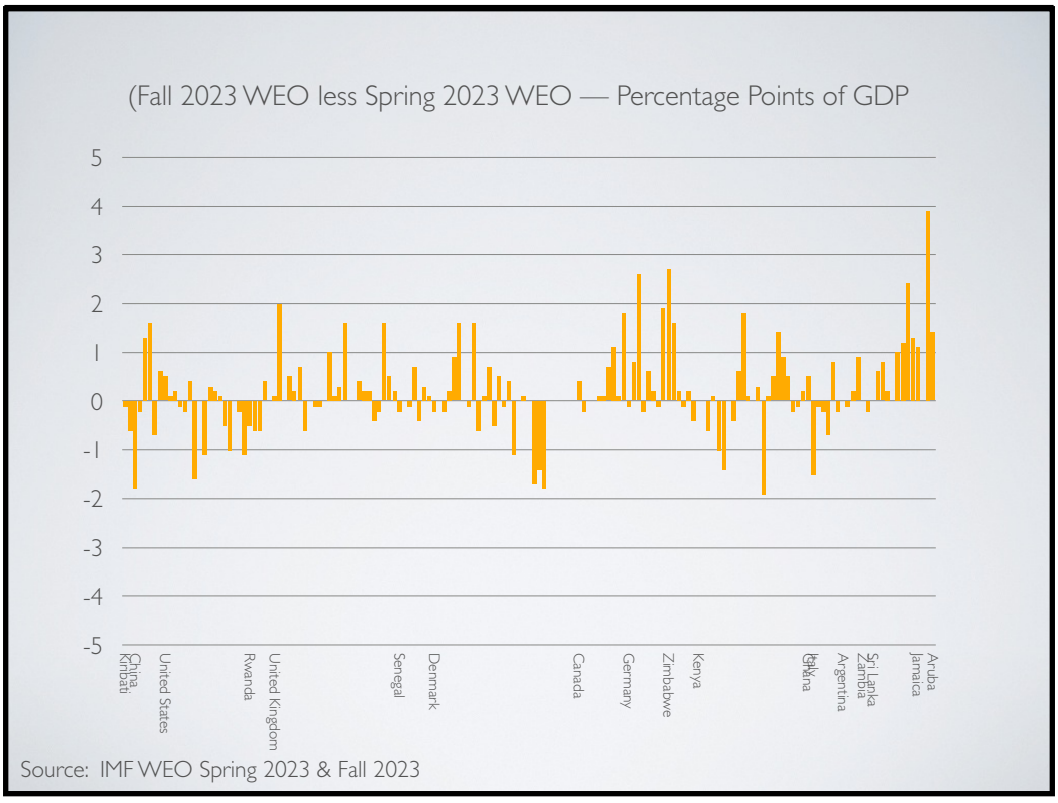


Figure 2. Change in IMF Estimates of Medium-Term Primary Balance Targets since Spring 2023



Such substantive changes are typical between every vintage of the WEO, with many estimates moving by over 4 percentage points of GDP in the space of a year—including those for the UK most recently. As scalar, such annual changes are half of what the UK spends annually on its National Health Service. So such instability represents a major impediment to effective medium-term fiscal planning.

That chronic instability in the IMF estimates for a policy variable that is expected from first principles to be stable—certainly over a period as short as six months—is discomforting, not least because those estimates are absolutely pivotal in sovereign debt restructurings.

And, it turns out, as explained below, that instability is mainly symptomatic of fundamental problems in the objective of the IMF in producing its estimates.

III. JAMAICA AS PARADIGM

The specific case of Jamaica introduces and highlights the underlying—general—analytic issues.

Between 1990 and 2019, Jamaica delivered an average annual primary surplus of 7.3 percent of GDP. Over that same period, it has delivered average real growth of its GDP per capita measured in 2017 International Dollars (PPP) of just 0.3 percent per annum.

For much of this period, including notably 2009-2019, it functioned under the auspices of IMF programs. And when not so, it attempted to pre-empt likelihood of further such IMF programs, thus substantially replicating the high primary surplus targets such programs would anyway have imposed.

IMF staff, when challenged that Jamaica's low income growth is caused by the exceptional primary balance targets they imposed or, under duress, self-imposed, were extremely anxious to refute that attribution. They pointed instead to crime and hurricanes as culprits.

But those phenomena are not exogenous. If they were responsible for such extensive damage to output, then they were/are highly macro-critical—and so should have been incorporated into IMF program design. Those programs should have been very tough on crime and its causes and should have devoted substantial resources to hurricane preparation and recovery.

But not so, because that would have required heavy spending as well as, for crime, tax reductions to give Jamaica's entrepreneurial population a legal means of earning a half-decent living. All that was precluded by the extreme primary surplus targets—causing the primary balance to exceed 9 percent of GDP for 10 of the years between 1990 and 2019. Those phenomena are endogenous.

Thus, Jamaica's long run output and the IMF's extreme primary surplus targets appear to be intimately connected, with the connection operating through the supply rather than the demand side—on which, hitherto, most macroeconomic analysis of the impact of fiscal action on output has focussed.

To establish and quantify that connection for Jamaica, consider the following peer group comparison.

Construct a balanced panel of peers consisting of countries in Jamaica's global GDP-per-capita neighborhood with the highest per capita growth rates between 1990 and 2019. Five such peers are selected with GDP per capita a little above Jamaica, and five below. Of those, the top countries in the upper and lower sub panels are dropped as potential growth outliers.

The panel, thus balanced, constructs a "synthetic Jamaica", a synthete, out of Jamaica's 8 best performing peers, proxying what Jamaica was capable of under their "best peer" policy frameworks.

That exercise is reported in Table I below.

Table 1. Synthete for Jamaica: 1990-2019

	Average GDP/ Capita 1990-2019	Average annual growth of GDP/ Capita	Average Primary Balance 1990-2019
	2017 Internationall US$ '000	in percent	In percent of GDP
Jamaica	10,079	0.3	7.3
Maldives	15,663	4.7	-5.2
Serbia	11,373	4.3	-0.5
Dominican Republic	11,230	3.9	-0.7
Mauritius	14,811	3.7	-0.6
Thailand	12,405	3.4	0.7
China	6,629	8.7	-1.1
Bosnia and Herzegovina	8,922	4.7	-0.3
Sri Lanka	8,000	4.6	-1.3
Kosovo	6,986	3.7	-0.9
Indonesia	7,435	3.5	0.9
Synthete	10,145	4.0	-0.3
Jamaica less Synthete	-66	-3.7	7.7

Source: Fall 2023 IMF WEO

Table 1 highlights that the growth shortfall by Jamaica relative to its best-peer synthete was accompanied by a discrepancy between their average primary balances over the thirty years of 7½ percentage points of GDP.

That is, for three decades, Jamaica's fiscal was highly discrepant from its best performing peers. Given that its average revenue ratios of over 25 percent of GDP only slightly exceeded theirs in this period, the implication is that the damage was entirely done by Jamaica spending far less than its best peers on public goods for development, rather than by a mix of that and excessive taxation.

The challenge for IMF staff in claiming that "something else" other than these large primary balance and associated spending differences was responsible for the growth gap is that, whatever that "something else" is, they have to explain why it was not addressed in their programs' design.

And whatever the "something else" might be, it cannot be the IMF's default censorious line—lack of commitment by the authorities. Few such have the political discipline to sustain primary surpluses of 0.7 percent of GDP, let alone the 7 percent that the Jamaicans sustained for three decades, a disciplined national character also evident in their outstanding performance in every summer olympics.

Any inclined to suspect that the "something else" is that Jamaicans are black—of which, regrettably, there are still many in economics and development—should note that the best peer/synthete analysis with African peers yields similar output and primary balance results as the analysis reported above.

And any suspecting that the "something else" might be some other mysterious "Caribbean" growth impediment should note the high incidence of sustained extreme primary balance surpluses there and the performance of Trinidad & Tobago and Panama which did not follow that suit (see Table 5 below).

The IMF staff, with the greatest incentives and resources to make the case that Jamaica's growth gap originates in "other factors", has failed to do so; the prime suspect remains the primary balance target. And not just "the" target; IMF medium-term primary surplus targets there, even in serial program context, have been no more stable around their extreme mean than those the IMF has made elsewhere.

The overall intent of those primary surplus targets was to lower elevated Jamaican public debt.

But the implication of the best peer synthete analysis is that had Jamaica instead applied its extraordinary policy discipline to delivering IMF programs designed to match the primary balances and broader policy frameworks akin to those of its best peer synthete since 1990, its GDP per capita would have been of the order of almost three times the 2019 outturn.

That is the implied measure of the cost of IMF primary balance targets conditioned on debt payment.

If so, while that output sacrifice rendered Jamaican debt "sustainable", it did so at exorbitant cost, far higher than the output losses originating in demand that macroeconomics is typically concerned with.

And to add insult to injury, a sizeable portion of the debt thus sustained and paid off originated in a misspecified IMF program in Jamaica in the early 1990s. After the fall of the Berlin wall, conditionality in that program reflected the then prevailing zeal in the IMF's Western Hemisphere Department to dismantle any financial regulation and supervision as "Socialist". So that IMF program conditionality scuttled both.

The swift upshot—obviously inevitable at the time of program design, but totally obvious now after the Great Financial Crisis—was a major financial and macroeconomic crisis in Jamaica in 1995. That required wholesale recapitalization of the Jamaican banks—hence elevated public debt, most of which was domestic, the most difficult kind to resolve.

So the public debt which motivated such elevated IMF primary surplus targets in Jamaica over three decades (so far) at such apparent exorbitant cost to output largely has its origins not in indiscipline but in Jamaica's commitment to deliver an earlier set of IMF conditionality—which was misspecified.

The point is not to lament this specific case. Though polar and so clarifying, it turns out that Jamaica appears to be but a specific instance of a general matter: IMF ex post sacrifice of output to debt repayment by means of elevating medium-term primary balance targets above (and often well above) best income-per-capita-peer practice.

That core analytical matter is one of five such general issues of Economic Principles—in the Marshallian sense—which the case of Jamaica raises, all of which are pertinent to establishing how frequently this phenomenon occurs worldwide, and the costs thereof.

Discussion turns to those now.

IV. PRINCIPLES

(i) Borrowing vs Revenue

The analytic notion underlying the best peer/synthete analysis applied to Jamaica above is that at each level of GDP per capita there is some optimal balance between borrowing and taxation to deliver the quantum of public goods necessary for development at that level of income.

The best peer/synthete recovers an estimate of what that balance is. In particular, the predicate is that the trend primary balance from the record of countries in the GDP per capita neighborhood with the best growth performance yields an estimate of the optimum balance in that per capita neighborhood.

But there is no presumption that such a recovered primary balance is a single silver bullet. Countries or IMF conditionality aspiring to replicate best-peer performance should not just apply that primary balance but also—and notwithstanding the difficulties in aggregation—the key common elements of the rest of the macroeconomic and structural frameworks of their best peers as well.

As reflected in the country composition of Jamaica's best-peer synthete, those overall policy paradigms are likely very different from the "ideals" commonly derived from Econ 101 texts and typically favored by the IMF—and certainly by its Western Hemisphere Department. None of Jamaica's best-peer synthete group would be regarded as "ideal" from such a perspective. Yet their chosen frameworks have the compelling merit that they have actually worked better than any other.

Nor is there any presumption in this analytic framework that any primary deficit, no matter how big, is warranted. Alongside the evidence from Jamaica, there is similar evidence from elsewhere in the world—detailed below—that some primary deficits, if sustained, yield low growth dividends as they waste resources and burden economies with the associated debt service.

The empirical challenge addressed below is to ascertain which case is which, and to derive numbers setting the boundaries for primary balance targets which avoid both pitfalls.

(ii) Debt equation

But if the former of those pitfalls is to be avoided, an almost universal intellectual slip among macroeconomic and IMF experts concerning the famous debt equation has to be noted and corrected.

A deeply symbolic aspect of the keynote discussion on African debt referenced at the outset above is that none of the speakers—the Head of the IMF's African Department, the Head of the UK official team responsible for representing UK interests at the IMF and World Bank Boards, and a leading Sovereign Bond trader, creditors all—nor any of the distinguished academics or students in attendance protested that the debt equation above their heads is fundamentally compromised by that "slip".

Indeed, the economics profession is so inured by endless repetition of that equation that one searches in vain, even among debt experts, for those who can spot the glaring "slip" unprompted.

In particular, in cash-based fiscal accounts, which are the overwhelming majority worldwide, the equation is simply wrong because it is a missing term on the right hand side: "- S". That symbol stands for stock adjustments in the form of permanent debt repudiations and/or debt write-offs.

And in accruals based fiscal accounts, that equation incorporates stock adjustments, but in a manner so elliptical that it eludes almost all—because the NPV transfer from write offs is included in the accruals measure of the primary balance as one-off revenue.

In either case, the matter of stock adjustments completely vanishes from discussion—as it did in the aforesaid debt-expert panel.

But with that issue disinterred, it is no longer tenable to say that after structural reform has raised "g" and credibility has lowered "r" that primary balance targets are simply a matter of facing facts.

Instead, after both, there are still two policy instruments remaining: the primary balance target, and S, the former largely at the determination of the Sovereign, the latter largely at the determination of the International Sovereign Debt Resolution framework.

And they are interchangeable: the more of one, the less of the other.

That may be why creditors, such as those comprising the panel above, are typically so happy to let the glaring ubiquitous intellectual "slip" regarding S in the debt equation go—because then, as with Jamaica, the onus falls entirely on the IMF primary balance target, and creditors are paid in full.

(iii) Sovereign Debtors' Prisons

But life thus without S for sovereign debtors has key implications for credit behavior and output.

If S is all but ruled out by slip, creditor embargo, deliberately punitive disfunction in the resolution process, or all of the above, and primary balance targets can be driven up ex post by the IMF as needed rendering almost any sovereign debt sustainable regardless of output (as in Jamaica), then the burden of ensuring that credit globally is efficiently allocated shifts entirely onto sovereign borrowers.

That is inefficient. It shifts the burden of the task of credit assessment from creditors—who possess the greatest relevant technical expertise in that regard—towards borrowers. Those are liable—outside the rich world—to exhibit the most fragile governance and screening ability. All that puts the burden to secure sovereign credit efficiency on the weakest point in the international monetary system.

That spurs predatory lending, corruption, and disorder. As part of the preceding displacement of the burden of credit assessment, lenders, knowing ex ante that they have recourse to ex post increased IMF primary surplus targets if necessary, have incentives to lower credit standards. That may even crowd out—or raise the price of—efficient borrowing, giving rise to profitable adverse selection.

In this context, creditors also have incentives to favor compromised officials in borrowing countries who are willing to sign up for such low quality but ex post IMF-insured borrowing. And ex post, voters in such countries may face choices between candidates proposing to meet the consequent IMF

growth-damaging primary surplus targets and those proposing further waste—i.e., no good choice. All that may persist, financed by knowing creditors, until they are no longer assured of repayment, even with the IMF guarantee. At that point, acrimony on all sides sets in.

That sovereign credit cul-de-sac gives rise to critical path dependence in Development. For a low income country to grow to potential, it cannot have in its past a corrupted government which succumbed to those incentives to over borrow—or perhaps exogenous shocks such as Jamaica's IMF mission bent on scrapping financial regulations and supervision. If it has had the misfortune of any of those, it may be subjected to growth-impairing primary surplus targets, effectively, ever after.

In this manner, purposeful creditor exclusion of S from discussion, with all potential attendant consequences noted, is, for sovereigns an exact replica of the economics of debtors' prisons—with migration control replacing prison bars. Persons imprisoned for defaulting cannot produce but creditors nevertheless jailed them to compel relatives to pay. Denote the associated loss/destruction of output as "output foregone". For Sovereigns, the coerced are not relatives and the output foregone is not that of the original persons signing. Instead. as in Jamaica, it is future generations whose output and income is compromised by IMF-mandated elevated and growth-hostile primary surplus targets.

But that exact analytical analogy also points to remedy. Abolition of debtors' prisons—heralding the modern era of insolvency regimes—established the principle in personal and corporate bankruptcies that the primary function of those procedures is not the preservation of debt but is the preservation of output. That is concretely reflected in the fact that the first immediate action in a corporate insolvency is court appointment of an administrator. And contrary to the alarums creditors raised ahead of abolition of debtors' prisons for persons, their abolition neither caused instability in the financial system nor, by reduced credit supply, stagnation. Instead, abolition spurred financial stability and growth, even as it checked lenders' ability to prey on the vulnerable.

Concern that adoption of the principle prioritizing the preservation of output over debt in the case of sovereigns might result in less credit flows, instability in the global financial sector, and global stagnation should be set against this overwhelming personal and corporate counter-evidence, as well as the quanta of output costs of not doing so, evidenced by Jamaica above, and globally, detailed below.

(iv) Ex Ante Transparency

But if a world effectively without S thereby raises creditors' willingness to finance low quality credits —fully repaid but yielding low or even negative returns to borrowing countries—it also induces creditors to foster circumstances in which those low quality credits will materialize.

The most effective way of doing so is to separate signatories of sovereign debts from the populations in whose name they sign—via secrecy. So whereas creditors, led by the IMF and in their private interests, are highly vocal about need for full transparency ex post, after initiation of sovereign debt resolution processes and particularly in relation to Chinese credits, they all originate those loans in secret negotiations, typically insisting that secrecy remains even—and often ever—afterwards.

That deeply further compromises sovereign borrowers'—in particular their general public's—ability to enforce effective governance over the quality of borrowing undertaken in their name by their own officials designated as authorized signatories, rendering the process liable to systemic corruption.

An obvious solution would be ex ante transparency.

One version of that would to require that the full terms of any individual sovereign borrowings subject to foreign legal jurisdiction, once negotiated and finalized, be submitted publicly to the borrowing Sovereign's Parliament a month prior to activation, thus subjecting them to full ex ante public scrutiny.

But to force creditors to comply with that even if individual corrupted borrowing officials do not, those arrangements would have to be recognized in the legal jurisdictions governing sovereign credits, namely those in the UK and the US, and thus enforceable in Sovereign Debt Resolution processes.

So under this rubric, just as credits not actually signed by an authorized signatory are declared invalid at the outset of such processes, so individual credits not compliant with that ex ante transparency standard should be declared invalid at the outset, even if signed by an authorized signatory. All sovereign borrowings under foreign legal jurisdictions save stand-alone IMF Stand-By Arrangements —because they concern macroeconomic emergencies—should be subject to that standard.

But such ex ante transparency therefore cannot be established by the public in individual borrowing sovereigns in order to secure their defenses against their own corrupted officials, but has to be nested in the UK and the US legal frameworks governing most non Rich Country sovereign borrowing. Just like arrangements accommodating or debarring S in the global rules governing sovereign debt resolution, it is also at the behest of creditor interests. They, perhaps in light of Section IV (iv), decline.

The IMF has a pivotal role of advocacy to call for such international ex ante transparency standard. But perhaps in the private interest of creditors, public and private, it has been silent on the matter.

(v) Not Debt Distress, Growth Distress.

All of this is why Jamaica is so telling. After that misspecified early 1990s IMF program, its maintenance of extreme primary surpluses for decades thereafter means it reveals with stark clarity the potential scale of output costs of primary surpluses that are set to yield S=0.

Given that, one prominent "sovereign debt geek's" account of one set of Jamaican IMF negotiations as a breathless thriller—will they or won't they reach a deal?—more than completely misses the point. Instead, given the output foregone, and despite the back handed self congratulation by the IMF for its work in Jamaica, the entire record of IMF ministrations on Jamaica since 1990, including those particular "thrilling" negotiations, amounts to the worst kind of macroeconomic malpractice. It is tantamount to a cruel and capricious three decade long (so far) Randomized Control Trial.

Given this IMF record there in the name of orthodox economics, amusement in the profession—including in the IMF message above—at the Central Bank of Jamaica's reggae outreach on Inflation Targeting—"so cute!"—betrays our profession's worst oblivious condescension.

Moreover, if Jamaica is in any way typical, the output foregone there since 1990 also calls into question the posture of the cottage industry mainly comprising lawyers—typically hewing closely to the IMF—who limit their professional focus to reforming sovereign insolvency arrangements "at the margin". Those efforts are almost entirely for the administrative convenience of creditors disputing debt restructurings for the purpose of reaching debt agreements, any agreements.

Instead, if output forgone is of similar magnitude elsewhere, that focus needs to shift radically to eliminate such output-destructive IMF primary surplus targets.

In particular, Jamaica's debt was sustained and was thus sustainable; Jamaica was never and is not insolvent. So the core issue there is not the much cited recent IMF alarum about "debt distress", namely the post Covid prospect of debt defaults—which is creditors' concern.

Instead, if Jamaica is in any way typical, the global concern pre- and even moreso post-covid would not be "debt distress" but "growth distress" because, as Jamaica indicates, given S=0 the former can be fully resolved at the heavy expense of the latter.

But before any case for a fundamental switch in the focus for reform and messaging is persuasive, two empirical questions have to be answered:

- Notwithstanding remarkable instability in the IMF's estimates, is it possible to calculate robust stable estimates for optimal medium-term primary balance targets?
- And if so, is the incidence of Jamaica-like output foregone due to deviations from those optima sufficiently widespread and severe globally to motivate a marked shift in the focus of global reform?

Discussion now turns to those matters.

V. GLOBAL EVIDENCE: 1990-2019

The evidence is gathered by extending the embryonic synthete analysis for Jamaica to all countries.

Thus, just as the synthete constructed above for Jamaica yields its "best peer" per capita growth, so similarly constructed synthetes for all countries yield the "best peer" growth for every level of GDP per capita. Furthermore, just as the synthete for Jamaica yields the "best peer" average primary balance, so the synthetes constructed for all countries yield the "best peer" average primary balances across all levels of GDP per capita.

Then, just as the dispersion of primary balances among Jamaica's individual best country peers yields an indication of the range of primary balances associated with their best growth performance, so the range of individual best peers primary balances across all synthetes yields an indication of the margin of uncertainty around the central estimate of best primary balances for every level of GDP per capita.

And last, just as the deviation of Jamaican growth from that of its best peers alongside the deviation of its primary balance from theirs yields evidence about the causes of Jamaica's growth outcomes, so the comparable deviations for all countries from their synthetes yields evidence about the causes of global deviations from best peer performance.

Thus, the analysis applies the best-peer framework illustrated for Jamaica to every country for which data are available for 1990-2019 from the Fall 2023 IMF WEO, and aggregates the results globally.

The average primary balance outturns of best performers at every level of GDP per capita proxies for optimal primary balances. And the range within each synthete aggregated across the globe yields a "target band" for those balances.

All countries' outturns can then be measured against these aggregated optima. This allows, as for Jamaica, inferences to be drawn about the role of primary balances in causing shortfalls from best growth performance worldwide.

(i) Synthete construction

Denote each country for which a best peer synthete is being constructed the "key" country.

To define a GDP per capita neighborhood, take each key country's GDP per capita as the average in 2017 International Dollars of 1990-2019. Then, 20 countries are identified with GDP per capita ranked immediately above the key country, and 20 below.

Among those 40, five with the highest growth per capita real growth rates from 1990-2019 and per capita incomes above each key country are picked out, followed by five of those with the highest per capita growth rates with per capita incomes below.

As with the example of Jamaica above, this forms initial balanced panels of 10 best performing peers for each key country.

Then, as this process systematically selects for the highest growth countries to constitute the peer panels, outlier growth cases may be given undue prominence in the aggregated global synthete results. So, as for Jamaica above, for the panel of 5 countries with above key country GDP per capita, the peer country with the highest growth rate is excluded from the panel, and similarly for the panel of 5 countries with below key country GDP per capita.

The thus adjusted synthetes are composed of eight rather than ten peers. This systematic deletion process typically excludes from synthete construction outlier cases such as China, and countries with exaggerated GDP per capita growth, including Ireland and Ethiopia.

With these outlier deletions completed, the average primary balance from the 8-country-synthetes yields the central estimate of the optimal primary balance. The second highest and second lowest primary balances in the 8-country synthetes yields estimates of the band around that average best primary balance. Thus, in the illustrative Jamaica synthete Table 1, Thailand forms the upper end of the range of best growth primary balances, and Kosovo forms the lower end of that range.

In addition, full synthetes cannot be constructed for the 20 countries at the highest and 20 at the lowest extremes of the income per capita range—for lack of enough countries above/below them respectively. In these cases, the neighborhood rule was relaxed to allow just 15 countries above/below for 5 affected cases at each end—as evidence from the rest of the synthetes indicates this shrinkage has little effect on estimated optima—leaving a total of 30 extreme-end key countries without any constructed synthetes.

The assumptions made for those 30 cases at the extreme-ends of the global distribution of GDP per capita—namely that they simply replicate the behavior of the last full synthetes in their neighborhood—are detailed visually below.

The decision to stop the analysis in 2019, even though data are available for subsequent years, reflects both that fiscal data for that year has now largely settled down after revisions worldwide and to avoid noise in the results from the Covid shock.

Details of five other adjustments to the underlying data to clean it, make best use of the available data, and to ensure robustness of the results are detailed in Annexes 1&2.

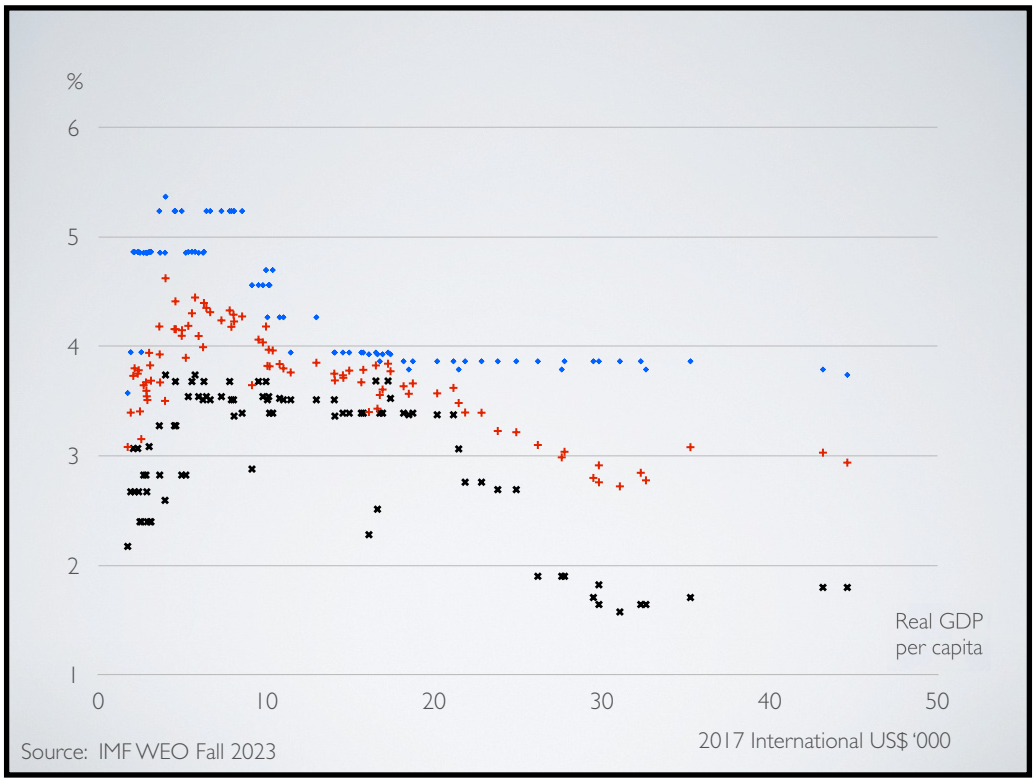
(ii) Results

(a) Best growth

The first step in the results is to establish what "best growth" is across the range of GDP per capita.

Figure 3 shows the raw scatter of real per capita growth rates both for the average of the best growth synthetes best peers (in red), and for the band—i.e., the average of the second top country growth rate for each synthete (in blue), and the average of the second bottom country (in black).

Figure 3. Average Real per Capita Growth of Synthetes 1990-2019

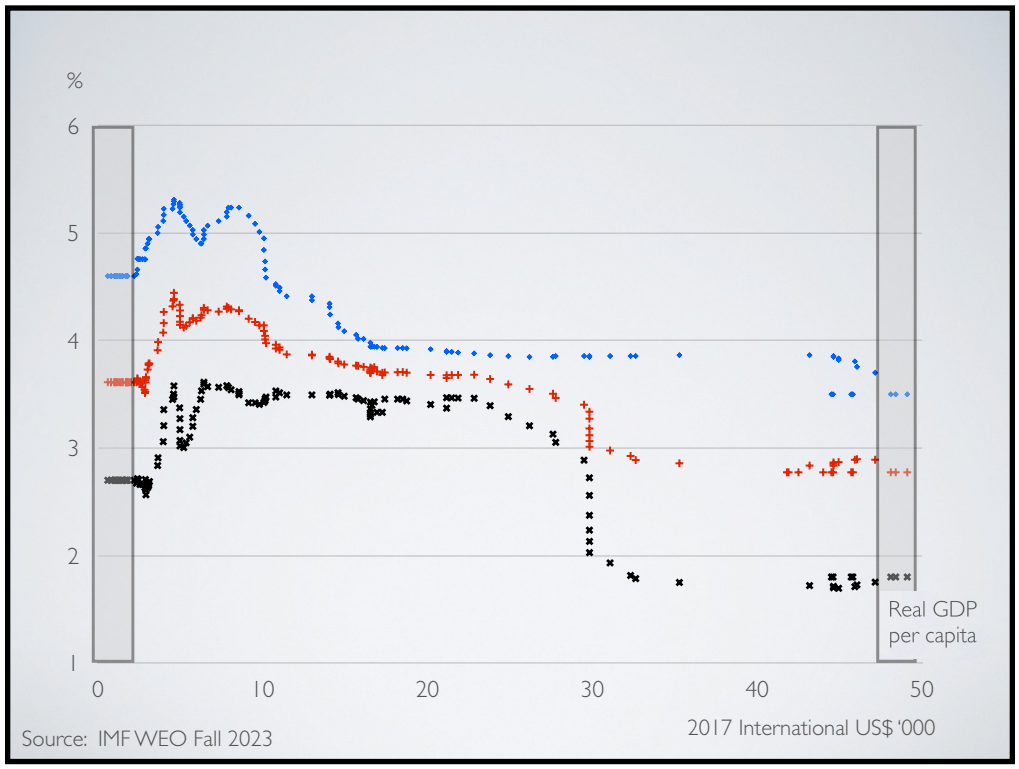


To clarify, Figure 4 summarizes those same data with the same color coding by presenting moving averages of 9 synthetes.

For Figure 4, recall that synthetes were not constructed for 30 countries at the extreme ends of the global distribution of income. In addition, given the moving average procedure, a further four countries at each end of the income spectrum cannot have moving average growth rates calculated for their synthetes either. The assumptions made for this group of "out of sample" countries its "best" growth rate and associated target band are highlighted in the shaded blocks in Figure 4.

Figure 4 is the first anchor result of this paper.

Figure 4. 9-Synthete Moving Average of Real per Capita Growth 1990-2019



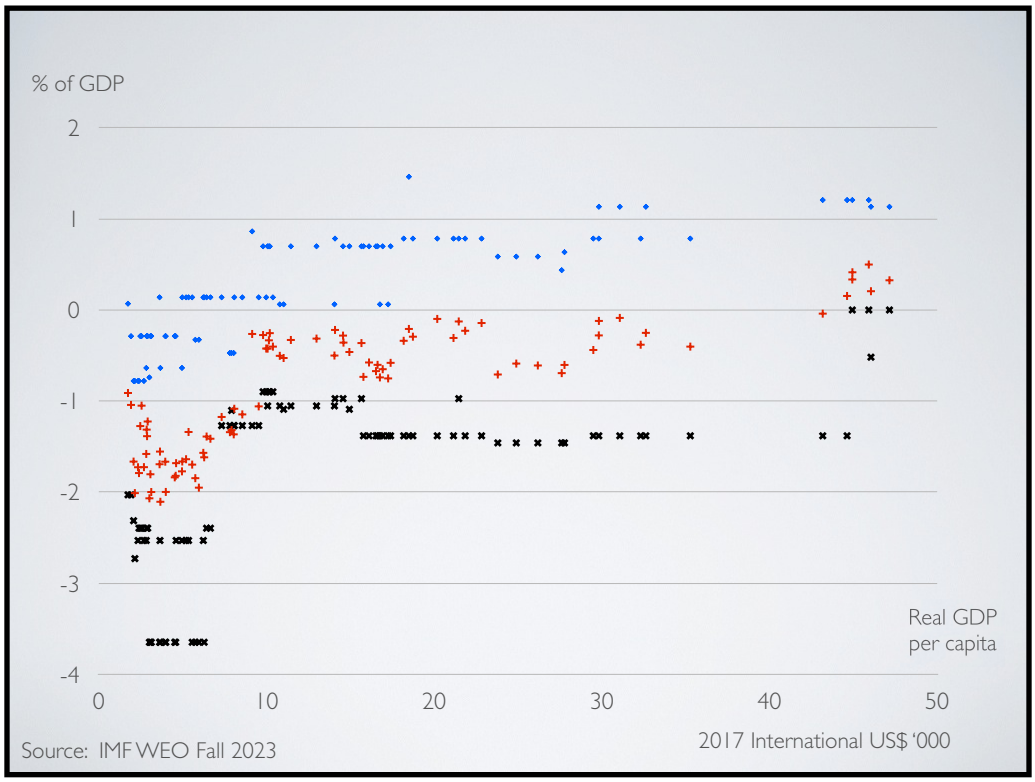
Note:

- Best average real per capita growth rates are high, even as they decline with real GDP per capita. That qualifies any case for "Hail Mary" development paradigms—ranging from naive purist Orthodox to the most speculative theoretical Heterodox—to "aim even higher"; the best-achieved is a creditable standard for policy to aspire and to be held to.
- A growth springboard is apparent at lowest levels of real GDP per capita—so that best growth there rises sharply as income rises, with the width of the band around best stable over that interval. That compounds the high premium on avoiding growth-hostile policy errors at the lowest levels of GDP.
- An unexpected characteristic of the "middle income trap" emerges: the bottom of the growth band (black dots) falls markedly at middle-income, but the top of the growth band (blue dots) does not. So deceleration of output in that middle income range is not inevitable, but continued high growth in that range becomes exceptional.

(b) Best Primary Balances

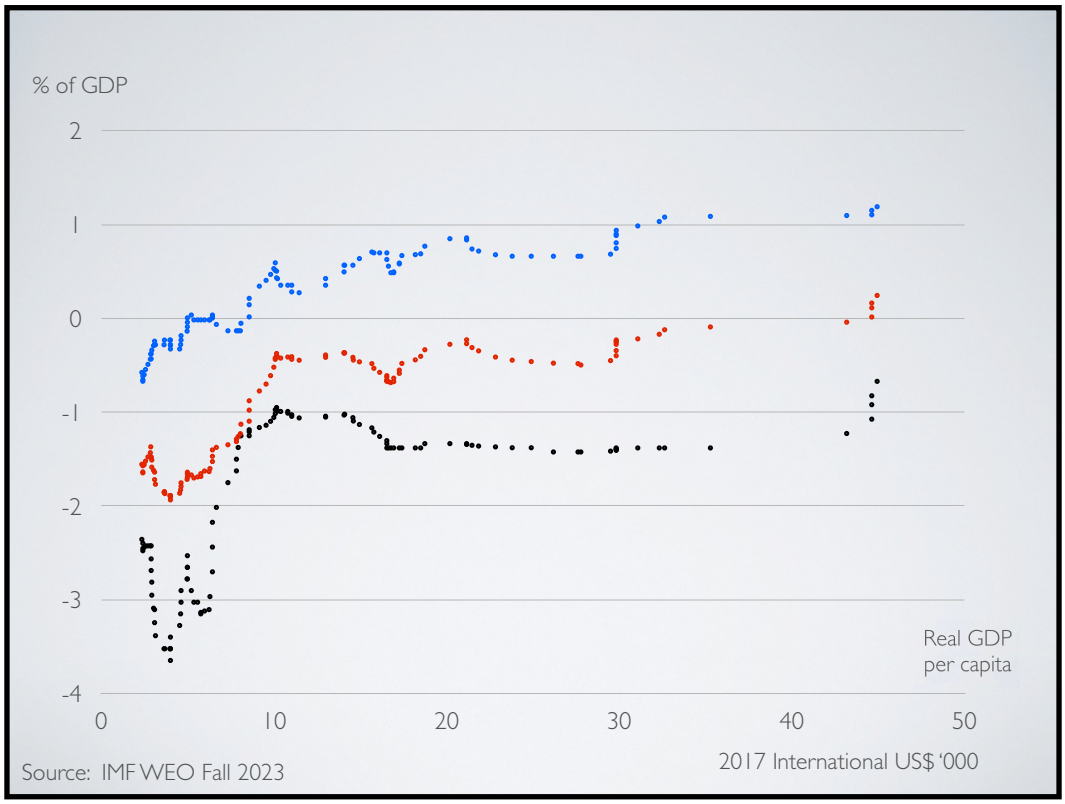
Given that overview of best-growth performance 1990-2019, Figure 5 presents the raw scatter of the average primary balances of each of the synthetes (in red) and the upper (in (blue) and lower (in black) ends of the target band.

Figure 5. Primary Balances of Synthetes 1990-2019



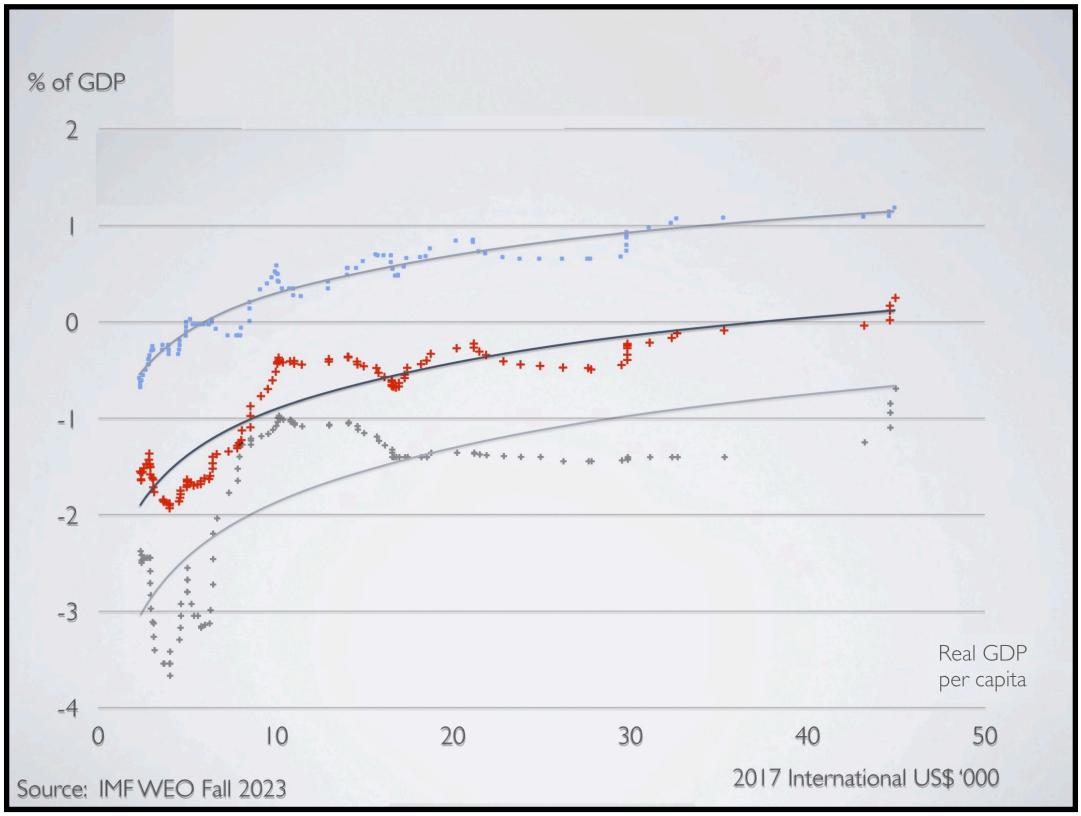
To aid clarity and as with the best growth rates, Figure 6 presents moving averages of those synthete primary balances for the average and to the upper and lower ends of the synthete data.

Figure 6. Moving Average Best Primary Balances 1990-2019



And then, Figure 7 fits logarithmic curves to each of the three data series to summarize them.

Figure 7. Fitted Best Primary Balances 1990-2019



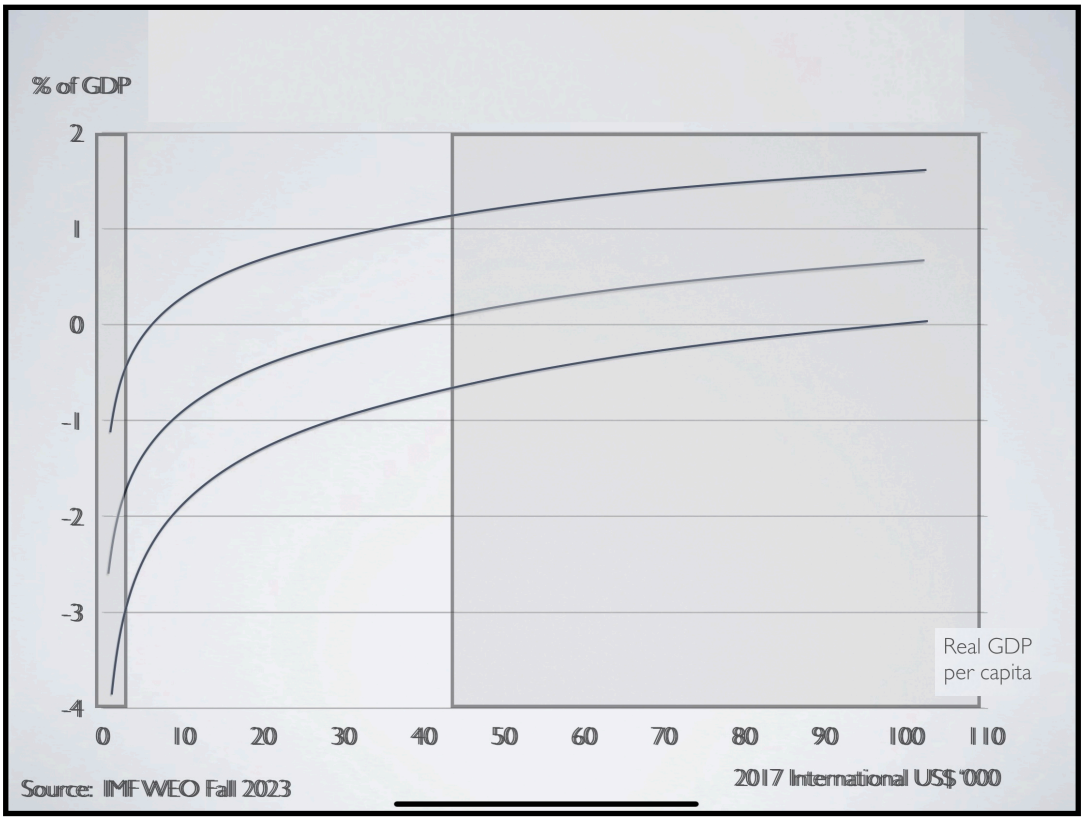
That range constitutes the derived "target band" for optimal primary balances—with the implication that primary balances outside that target band have a high probability of being growth-hostile relative to best.

The logarithmic form clearly fits well for the average and upper of the target band, but moderately less so for the lower end of the target band, a fact to be considered when interpreting results below.

As the fitted curves fit well, the fitted equations are used to derive the optimal primary balance and target band thereof for the 30 countries at the extreme ends of the distribution of income, also highlighted as above with shaded blocks in Figure 8 below.

Figure 8 represents the second anchor result of this paper.

Figure 8. Best Growth Primary Balances and Target Band.



Note:

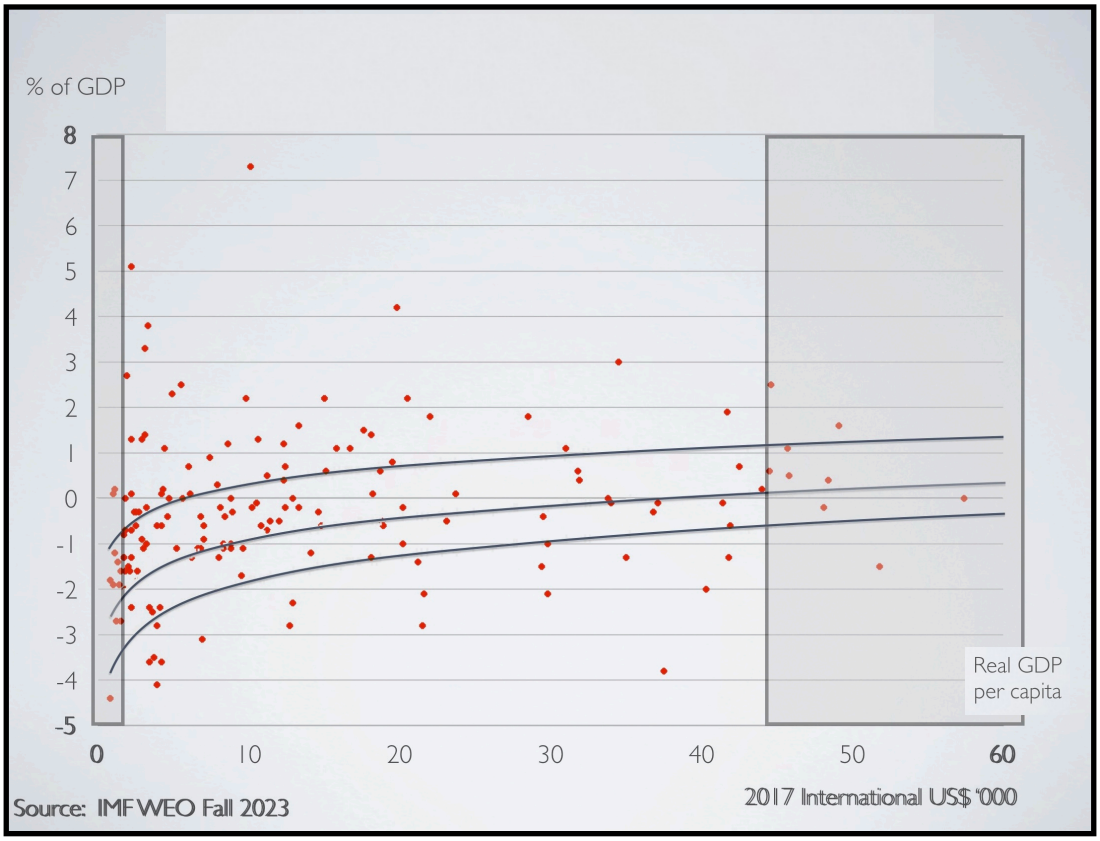
- Best practice primary balances tighten as real income per capita rises. Though this is a new quantitative finding, it is highly intuitive given, as outlined in Section IV, that optimal primaries reflect the choice between funding public goods necessary for growth and development from revenue and borrowing: at the lowest levels of income, tax administration is weak and returns to scarce public goods are high, indicating that optimal primary balances are significantly in deficit while these factors reverse at higher levels of real GDP per capita and correspondingly, so do optimal primary balances. The extent of the "best" primary deficits at low levels of GDP per capita is congruent with the finding of a growth springboard at those income levels.
- All that said, the degree of incline with income partly reflects that GDP in the x axis is in PPP terms, while the standard GDP at market prices is used in the denominator on the y axis. Were PPP GDP used in the denominator on the y axis as well, the incline would be less steep.
- The top end of the target band barely gets above 1½ percent of GDP even at the highest levels of GDP per capita. That number immediately challenges the integrity the IMF estimates for 2028 reported in Figure 1 above, many of which are well above that, rising all the way up to 5 percent of GDP, including Jamaica. That is significant given, by construction of the search process, that average primaries outside of that synthete range have a high chance of being growth-impairing relative to best, and, as indicated below, significantly so.
- The target band is narrow—some 1½ percentage points of GDP—across all levels of real GDP per capita—widening a little at mid range where the raw scatter somewhat undershoots the fitted curve

in that range, and widening at the low end. The narrowness of the band challenges the integrity of the instability in the IMF's estimates of the optimal primary balances over time (Figure 2).

(c) Deviations from optimal primary balances

To establish the incidence and distribution of non-best average primary balances—in either direction—between 1990-2019, first consider the primary balance outturns over that period compared to the target band, excluding outliers (such as Macao) to keep the scale readable (Figure 9).

Figure 9. Primary Balance Outturns, and Target Band: 1990-2019



Note:

- Contrary to the orthodox fiscal narrative, the overwhelming majority of countries which deviate from best-peer fiscal practice do so by running primaries tighter than the best—above the center of the target band.
- Furthermore, far more countries are above the target band than are below it.
- Below median income per capita, the distribution of countries relative to the band is skewed above its center and upper bound, but above median income, the distribution is balanced.
- Jamaica, with a primary balance of 7.3 percent of GDP, stands out as the highest dot in the scatter.

Figure 9 is the third anchor result of this paper.

Then, to establish the orders of magnitude of output costs arising from those non-best average primary balances—in either direction—scatter plots of deviations of output and primary balances for every key country from the moving average of the fitted synthetes for growth (Figure 4) and fitted primary balances (Figure 8) are presented below.

Measuring these deviations from the moving average and fitted metrics rather than from the individual synthetes employs all available information from the entire global dataset to reduce noise in the results.

The results are presented in a four-quadrant scatter plot.

In Quadrant 1, on the upper left, are countries with primary balances above and output growth below the fitted synthete at their level of GDP per capita. This is the "output foregone" quadrant, Jamaica's, with tighter primary surpluses and lower growth than best practice.

In Quadrant II, on the lower left, are countries with GDP per capita growth below moving average synthete and primary balances weaker than fitted synthete. These are countries conforming to the orthodox "output squandered" narrative.

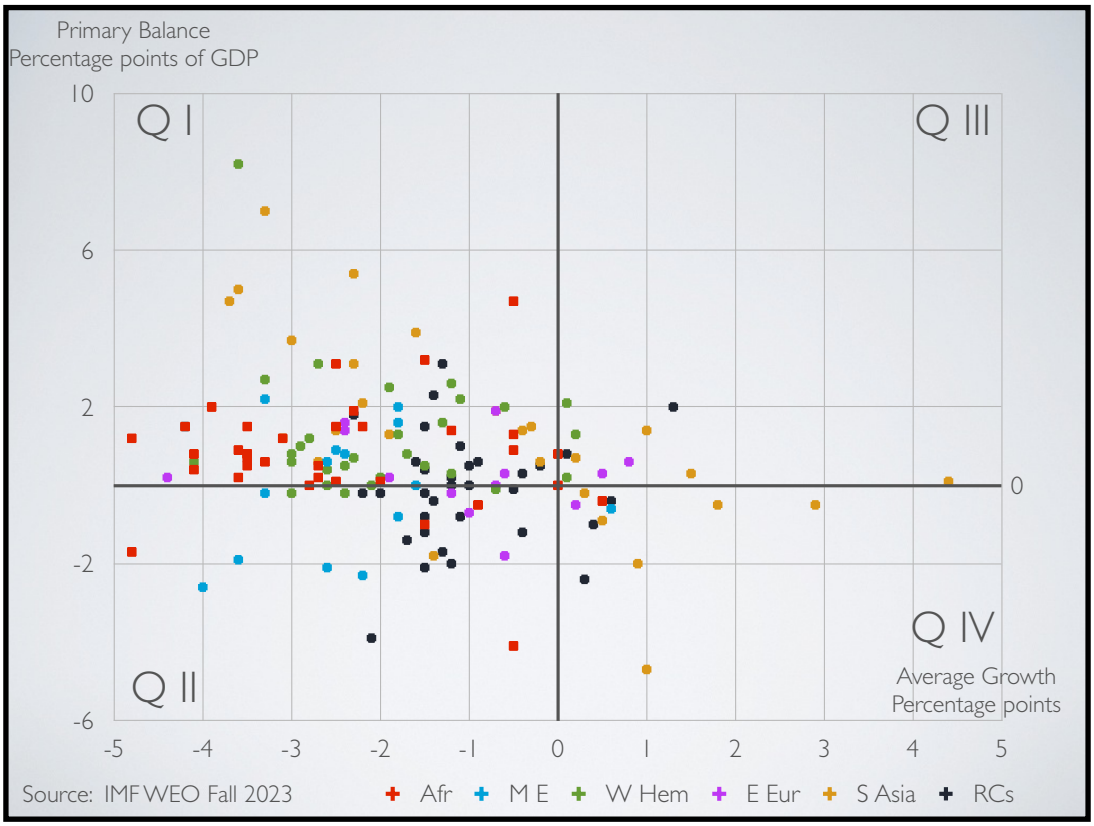
Then Quadrants III and IV show the outstanding economies with above synthete growth with tighter and looser primary balances respectively.

The first overall results on this basis are shown in Figure 10 with color coding for countries according to the IMF country classification, with the richest countries separately grouped:

- Africa (Afr) is shown in red),
- the Middle East (ME) in blue,
- the Western Hemisphere (WH) in green,
- Eastern Europe (EE) in purple,
- South Asia in brown,
- the Rich Economies (RE) in black.

Figure 10 represents the fourth anchor result of this paper.

Figure 10. Deviations from Fitted Synthetes, 1990-2019



Note:

- Jamaica is extreme. It is the highest (green) dot in Quadrant I—validating its status as the paradigm case for this analysis. It delivered an average primary balance across 1990-2019 which is 8.2 percentage points of GDP higher than fitted synthete optima for its level of GDP per capita. Alongside, its shortfall of per capita growth relative to best was 3.6 percentage points annually.
- But, remarkably, Jamaica is not alone up there. Five countries in South Asia are also in Jamaica's extreme neighborhood, with exceptionally tight primary balances accompanied by well below synthete growth rates despite living in a high growth neighborhood near China.
- Furthermore, fully 104 countries are in Quadrant I with Jamaica over 1990-2019; namely, they have delivered primary balances tighter than the fitted best synthete at their levels of GDP per capita. Of those, fully 51 have run average primary balances tighter than the upper level of the target band of the fitted synthete over that period.
- Still in Quadrant 1, the output costs of doing so are high. The deviations from synthete GDP per capita growth shown on the x-axis—output foregone—are in annual percentage points. Those deviations can thus be compounded over three decades to derive the associated output shortfall in GDP per capita by 2019. Specific numbers for this are presented for each country in the detailed tables reported below.
- Thus, countries in this quadrant, far from being rewarded under the orthodox narrative of "ambitious rigorous fiscal discipline", are, in the long run, falling far short of per capita growth rates of the fitted synthete at their level of GDP per capita. Affected countries number far more than those

recently cited by the IMF as facing "debt distress, and unlike the implication of that IMF alarum, their predicament is not new, but it is aggravated by the post-Covid debt burdens they now carry.

- Accordingly, despite the orthodox narrative of fiscal waste, this evidence suggests that a significant plurality of countries—like Jamaica—are living under the opposite fiscal disorder; they are running primary balances tighter—and often considerably tighter—than the best-performing peers in their income per capita neighborhoods, and at heavy cost to output.
- However, the countries which do conform to the narrative of fiscal waste, Quadrant II the "output squandered" quadrant, often pay a penalty in terms of loss of output as severe as those in the output foregone category, Quadrant I. But note both how few cases there are compared to Quadrant I and that they disproportionately feature rich countries.
- In Quadrants I & II, output foregone and squandered respectively can be significant even when deviations from synthete primaries are modest—even within the +/- 1½ percent of GDP boundary of the synthete target band for primary balances. These losses may have "other" causes. But they also highlight the possibility that at even modest deviations from optimal primary balances—within the target band—might also be significantly output-hostile.

Table 2 reports the countries which comprise the synthetes—i.e., those best performers in each GDP per capita neighborhood which drive the overall determination of best growth and optimal primary balances reported in Figures 3 and 8 respectively. The number of times each country appears in a synthete indicates their importance relative to each other in driving the overall global results, so only countries in more than 5 synthetes are shown.

Occasionally, that number moderately exceeds 40, despite the 20 above and 20 below key country construction of synthetes. That simply reflects algorithm retention in synthetes of countries when oil-dependent and/or data insufficient data countries are excluded.

This listing of the best performers dominant in the composition of the synthetes—excluding the high growth outliers—by GDP per capita represents the fifth anchor result of this paper.

Table 2. Principle Country Composition of the Synthetes

Country	Number of Synthetes	Average GDP per Capita 1990-2019	Average Annual Growth GDP per Capita 1990-2019	Average Primary Balance in % of GDP 1990-2019
Rwanda	10	1,287	3.1	-1.4
Burkina Faso	11	1,478	2.7	-2.7
Uganda	17	1,714	3.1	-0.8
Tanzania	11	1,771	2.4	-0.7
Lesotho	8	2,196	2.2	1.3
Cambodia	26	2,269	5.4	-2.3
Nepal	29	2,392	3.3	-0.3
Bangladesh	42	3,200	3.9	-1.0
India	26	3,407	4.9	-3.6
Ghana	25	3,605	2.8	-2.5
Lao P.D.R.	46	4,051	4.9	-2.4
Uzbekistan	10	4,318	2.3	0.2
Vietnam	26	5,168	5.7	-1.1
Cabo Verde	42	5,338	3.7	-5.4
Bhutan	41	6,143	5.2	0.1
Kosovo	29	6,986	3.7	-0.9
Indonesia	21	7,435	3.5	0.9
Sri Lanka	41	8,000	4.6	-1.3
Albania	21	8,310	3.5	-1.1
Guyana	14	8,813	3.4	-1.1
Bosnia and Herzegovina	7	8,922	4.7	-0.3

Country	Number of Synthetes	Average GDP per Capita 1990-2019	Average Annual Growth GDP per Capita 1990-2019	Average Primary Balance in % of GDP 1990-2019
Dominican Republic	45	11,230	3.9	-0.7
Serbia	37	11,373	4.3	-0.5
Thailand	35	12,405	3.4	0.7
Costa Rica	6	14,573	2.5	-0.3
Mauritius	42	14,811	3.7	-0.6
Malaysia	22	18,208	3.5	0.1
Panama	42	19,532	3.9	0.8
Poland	45	20,154	3.8	-1.0
Lithuania	43	21,231	3.9	-1.4
Slovak Republic	41	21,510	3.7	-2.8
Trinidad and Tobago	15	22,016	3.4	1.8
Estonia	9	23,728	2.8	0.1
Slovenia	8	29,377	2.7	-1.5
Malta	16	31,768	3.1	0.6
Israel	9	31,882	1.9	0.4
Cyprus	9	34,007	1.8	-0.1
Australia	6	41,878	1.6	-0.6
Hong Kong SAR	17	44,489	2.6	0.6
Iceland	19	45,745	1.7	1.1
Singapore	9	67,680	3.4	0.0
Luxembourg	8	102,558	1.8	1.2

Note:

- As with the case of Jamaica discussed above, the list of countries constituting the synthetes challenges the orthodox narrative that best performance follows Econ 101 prescriptions; few (if any) of the countries delivering best growth performance bear much resemblance to that paradigm, nor indeed to others of the prevailing development schools. But they have succeeded. Aggregation of their policy frameworks should form the kernel of academic and International Financial Institution analysis to determine general best macroeconomic growth strategies and conditionality.

In what follows, various mainly Continental—according to the IMF classification—decompositions of these global results help to clarify and deepen their overall interpretation.

Alongside the geographic decompositions, the results for the HIPC and Brady Plan countries, for Greece and the UK, and for the Euro and CFA currency unions are particularly illuminating.

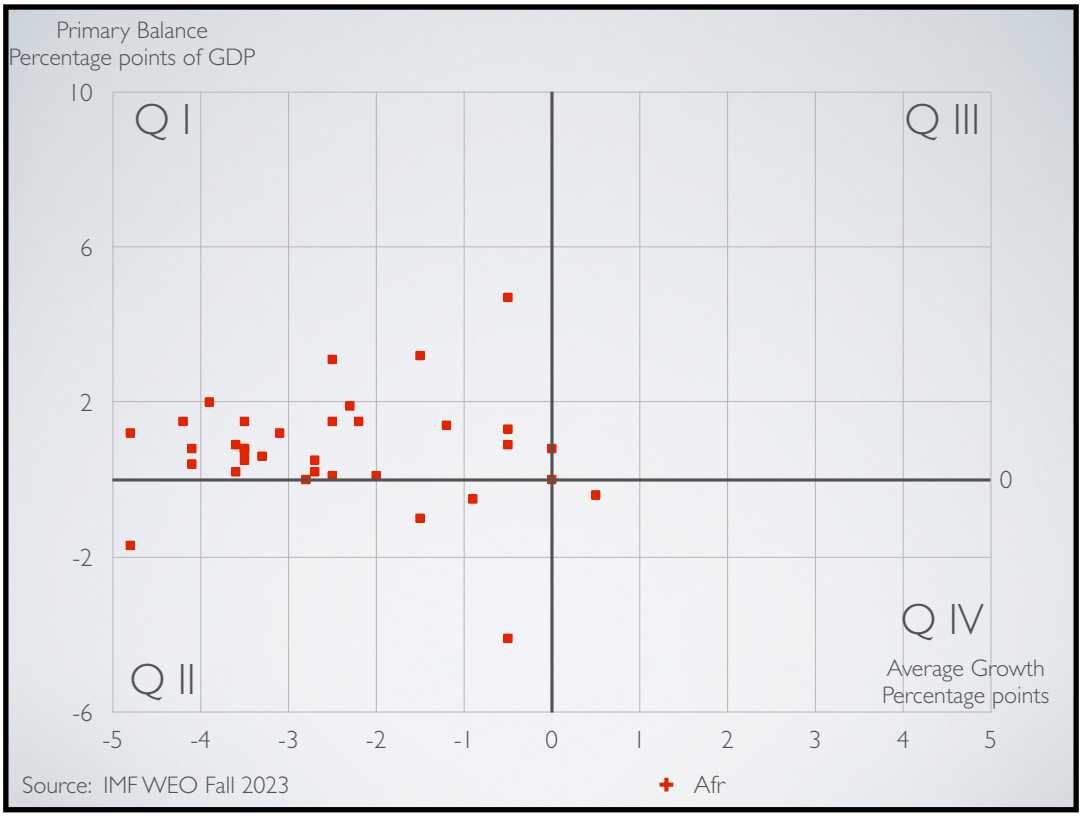
Tables are provided with the detailed individual country listings and estimated output losses for all the countries in each aggregate. Data for IDA countries are reported in Annex 4.

Readers wishing to turn directly to the overall policy discussion after reviewing decompositions of particular interest can then turn to Section VI below.

Africa

Figure 11 shows the results for Africa.

Figure 11. Deviations from Fitted Synthetes 1990-2019: Africa



Note:

- The overwhelming bulk of African countries are in Quadrant 1 (Jamaica's), albeit not at Jamaica's extreme. With only six in Quadrant II, the "African excess borrowing" narrative—even taken to the point of infantilizing IMF injunctions to Africans to "grow up"—is revealed as ungrounded. The overwhelming bulk of them suffer from the opposite—Jamaican—fiscal disorder: "output foregone".
- The sole African country on the right hand of the chart is Ethiopia, which perhaps reflects doubts about the integrity of its national accounts data. This again confirms the procedure described above of dropping outlier growth countries—including Ethiopia—from synthete construction.

These data for Africa are listed by country and quadrant in Table 3 below. This presentation also calculates on the right hand side for each Quadrant the "output lost" notably, not as in Figure 10 as percentage point gaps in annual growth relative to best, but as the percentage increase in income in 2019 had policies since 1990 in each country followed best practice at each level of GDP per capita. Red indicates countries with primaries outside the target band, and yellow those within it.

Table 3. Deviations from Fitted Synthetes, 1990-2019: Africa

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Democratic Republic of the Congo	1,009	2.6	379
Central African Republic	1,119	1.2	290
Côte d'Ivoire	4,157	1.5	225
The Gambia	2,201	2.0	208
Cameroon	3,186	1.5	170
South Africa	12,290	1.2	142
Senegal	2,706	1.5	105
São Tomé and Príncipe	2,851	3.1	101
Botswana	12,293	1.9	93
Benin	2,543	1.5	85
Lesotho	2,196	3.2	52
Tanzania	1,771	1.4	41
Uganda	1,714	1.3	16
Seychelles	19,784	4.7	14
Madagascar	1,651	0.8	223
Sierra Leone	1,418	0.4	222
Kenya	3,925	0.9	177
Comoros	2,881	0.8	173
Liberia	1,474	0.7	172
Togo	1,749	0.8	168
Niger	1,040	0.6	157
Namibia	8,342	0.0	118
Guinea-Bissau	1,967	0.5	117
Zambia	2,649	0.2	113
Zimbabwe	2,649	0.2	112
Eswatini	6,818	0.1	100
Guinea	1,751	0.5	85
MALAWI	1,802	0.0	74
Mali	1,802	0.1	74
Rwanda	1,287	0.9	17
Mozambique	841	0.8	1
SOUTH SUDAN	580	0.0	0
	Quadrant II		
Burundi	836	-1.7	293
Eritrea	1,657	-7.2	141
Cabo Verde	5,338	-4.1	14
Ghana	3,605	-1.0	52
Burkina Faso	1,478	-0.5	30
Mauritius	14,811	-0.0	1
	Quadrant IV		
Ethiopia	1,234	-0.4	-12

Source: Fall 2023 IMF WEO

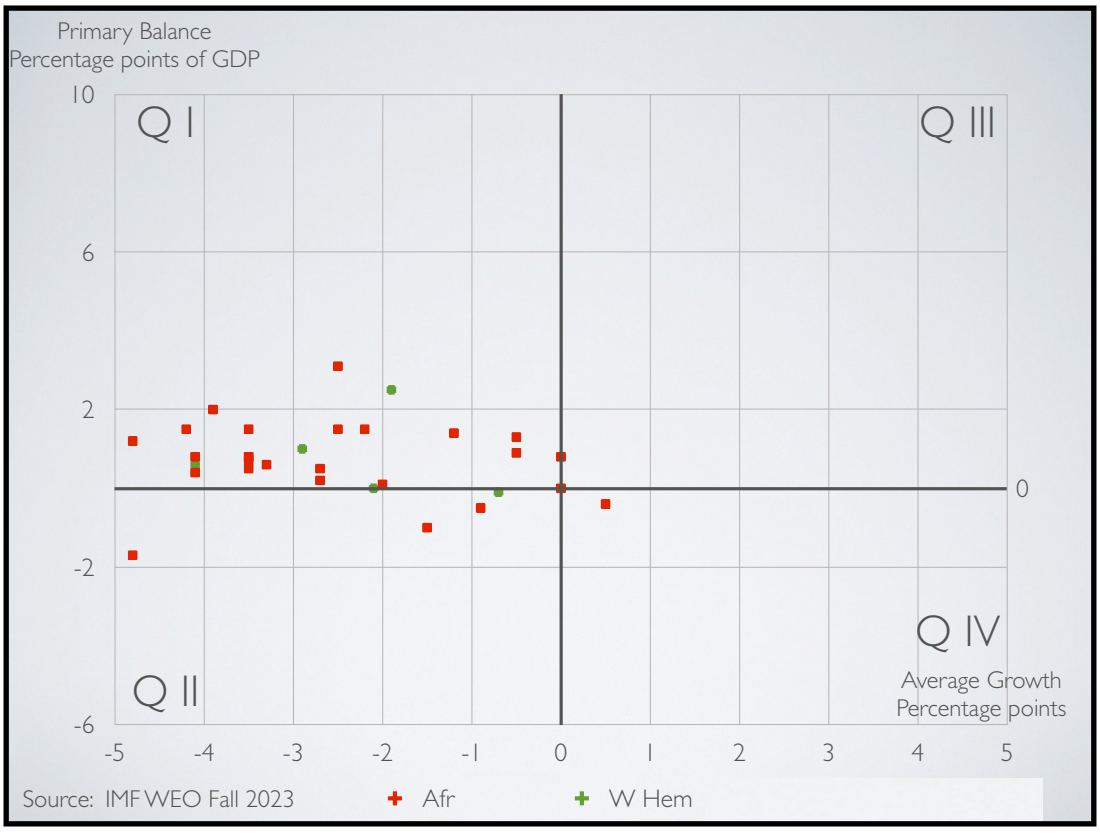
Note:

- The take-away from Table 3 (and those similar which follow for other groupings) is not the specific percentages of output lost in each case—though note for illustration that real per capita incomes in mid-ranking Senegal and Kenya in Quadrant I would have been some 105 and 177 percent higher than outturn in 2019 on 'best peer" primary and other policies from 1990-2019—that is double and almost triple, respectively—and the location of South Africa in the red zone of Quadrant I.
- Instead, note the huge order of magnitudes of output lost in general, their frequency, the quadrants in which they arise, and their location in and out of the target band.

HIPC

Figure 12 reports the results for the 33 HIPC countries. Malawi is excluded for lack of sufficient data.

Figure 12. Deviations from Fitted Synthetes, 1990-2019: HIPC



Note:

- The overwhelming bulk are in Quadrant I. This is telling because they all, under HIPC, received debt write offs: $S > 0$. That the bulk are nevertheless in Quadrant I indicates—again contrary to prevailing narrative about HIPC—that the size of the stock adjustments under HIPC was inadequate to accommodate growth-optimizing primary balances, and that inadequacy was associated with significant output foregone. Consider the case of Senegal already noted.

- Only five of the 33 HIPC cases—Burundi, Bolivia, Burkina Faso, Ghana, and Guyana—are in Quadrant II over 1990-2019, the "output squandered" quadrant.
- Recall that all HIPC cases, like Jamaica, operated under and thus conformed to IMF conditionality for extended periods both before and after activation of debt write offs in this period—in order to secure eligibility for HIPC. So non-fiscal policy was also deemed to be strong overall by the IMF, indicating that, at least in the view of the IMF, the primary balance was, as in Jamaica, the primary cause of these output shortfalls.

These data are detailed in Table 4.

Table 4. Deviations from Fitted Synthetes ,1990-2019, HIPC

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Democratic Republic of the Congo	1,009	2.6	379
Central African Republic	1,119	1.2	290
Côte d'Ivoire	4,157	1.5	225
The Gambia	2,201	2.0	208
Cameroon	3,186	1.5	170
Senegal	2,706	1.5	105
São Tomé and Príncipe	2,851	3.1	101
Benin	2,543	1.5	85
Nicaragua	4,388	2.5	73
Tanzania	1,771	1.4	41
Uganda	1,714	1.3	16
Madagascar	1,651	0.8	223
Sierra Leone	1,418	0.4	222
Haiti	2,965	0.6	221
Comoros	2,881	0.8	173
Liberia	1,474	0.7	172
Togo	1,749	0.8	168
Niger	1,040	0.6	157
Honduras	4,579	1.0	126
Guinea-Bissau	1,967	0.5	117
Zambia	2,649	0.2	113
Guinea	1,751	0.5	85
MALAWI	1,802	0.0	74
Mali	1,802	0.1	74
Rwanda	1,287	0.9	17
Mozambique	841	0.8	1
Afghanistan	2,218	1.3	0
	Quadrant II		
Burundi	836	-1.7	293
Bolivia	6,220	-0.0	81
Burkina Faso	1,478	-0.5	30
Ghana	3,605	-1.0	52
Guyana	8,813	-0.1	21
	Quadrant IV		
Ethiopia	1,234	-0.4	-12

Source: Fall 2023 IMF WEO

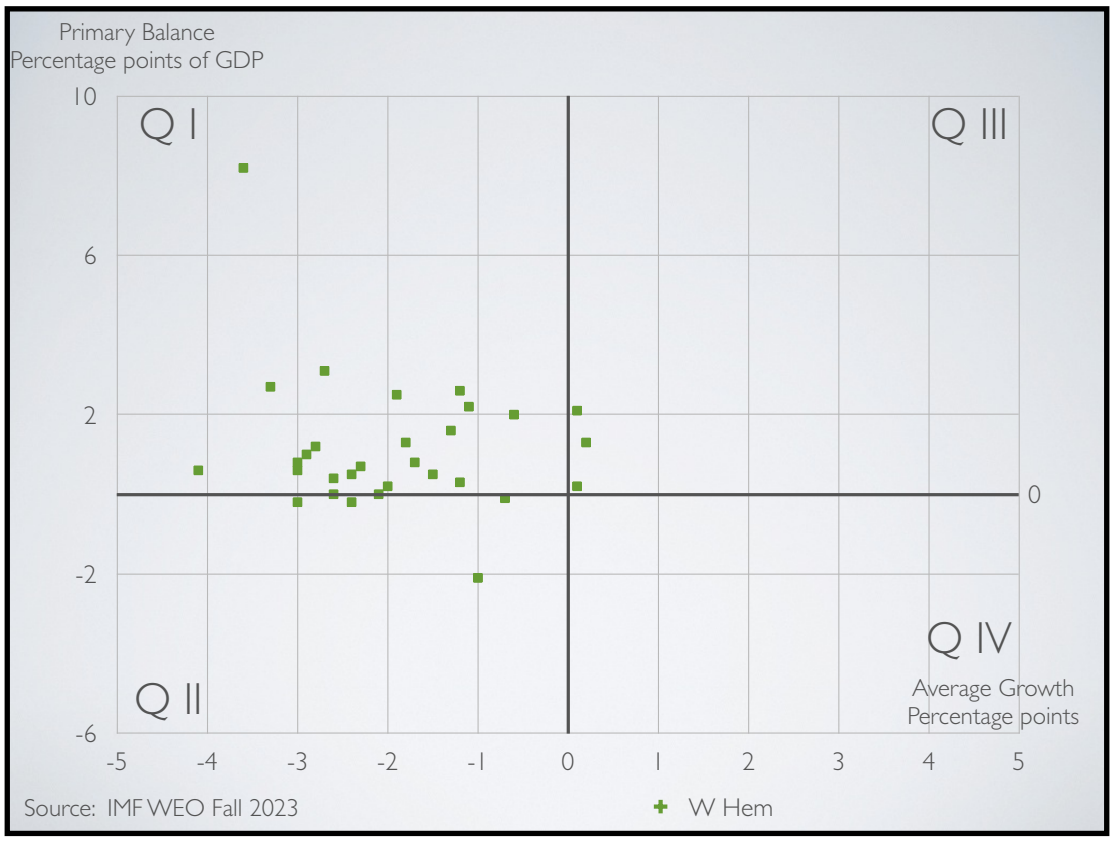
Note

- Given the quanta of output foregone and that the source of much uncontrolled immigration from Africa to Europe, including in small boats, originates in these countries, action on further debt write offs to allow them to run primary balances congruent with those of the fitted synthete could significantly allay those problems and let Africa as a whole capitalize on its demographic dividend.

Western Hemisphere

Remarkably the same patterns as appeared in Africa are also evident in the Western Hemisphere.

Figure 13. Deviations from Fitted Synthetes, 1990-2019: Western Hemisphere



Note:

- The dominant quadrant is not the "output squandered" Quadrant II, but Quadrant I, output foregone, with primary balances tighter than fitted synthetes for their level of income. Jamaica is, once again, exceptional.
- As in Africa, the output costs of these excessively tight primary balances are high and enduring.

These data are detailed in Table 5.

Table 5. Deviations from Fitted Synthetes: 1990-2019 Western Hemisphere

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Jamaica	10,079	8.2	181
Barbados	15,007	2.7	157
Mexico	18,714	1.2	121
Paraguay	9,759	3.1	112
Nicaragua	4,388	2.5	73
Colombia	11,203	1.3	66
Uruguay	16,743	1.6	50
St. Kitts and Nevis	20,456	2.6	42
Peru	8,584	2.2	37
Chile	17,606	2.0	18
Haiti	2,965	0.6	221
Belize	8,395	0.6	133
Guatemala	6,805	0.8	131
Honduras	4,579	1.0	126
St. Lucia	13,323	0.4	109
Antigua and Barbuda	18,822	0.0	109
BRAZIL	13,319	0.0	101
El Salvador	7,005	0.5	94
Dominica	10,240	0.7	90
Argentina	20,196	0.2	74
St. Vincent and the Grenadines	10,506	0.8	61
Grenada	12,361	0.5	52
Costa Rica	14,573	0.3	41
	Quadrant II		
The Bahamas	36,784	-0.2	133
Aruba	37,050	-0.2	101
Bolivia	6,220	-0.0	81
Guyana	8,813	-0.1	21
Trinidad and Tobago	22,016	2.1	-3
Panama	19,532	1.3	-7
	Quadrant III		
Dominican Republic	11,230	0.2	-3

Source: Fall 2023 IMF WEO

Note

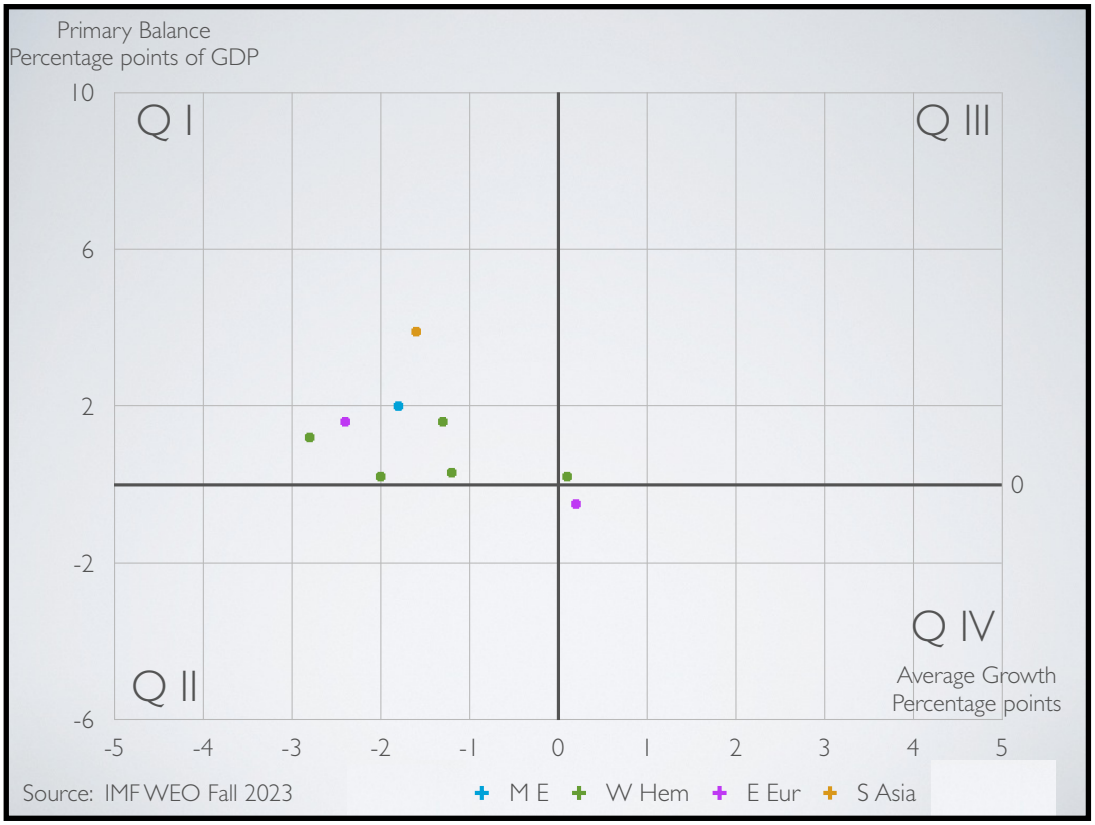
- The high number of the Caribbean States in Quartile I, including of course Jamaica, indicates that this is a key part of the correct diagnosis for what some analysts have hitherto regarded as a mysterious "Caribbean growth problem", especially given that the successful regional States of Panama and Trinidad and Tobago are not there.
- Given that many of the countries from which uncontrolled immigration across the USA's Southern Border is sourced are in Quadrant I, action to lower their structural primary balances—through stock adjustments sufficient to allow them to run best synthese primary balances—could significantly help to address that problem, as opposed to deterrence.

Brady Plan

Like Africa, various countries in the Western Hemisphere secured debt write offs, though in their case under the Brady Plan.

Figure 14 reports the results for 9 of the 13 countries worldwide which received Brady treatment, excluding Ecuador, Nigeria, and Venezuela as oil-dependent, and excluding Brazil which lacks a full data set for its primary balances.

Figure 14. Deviations from Fitted Synthetes, 1990-2019: Brady Plan



Note:

- Unlike the HIPC group, a portion of these countries received debt relief sufficient to allow them to run growth-maximizing primary balances, notably Argentina, Costa Rica, Poland, and the Dominican Republic, though in Poland's case, this was less due to Brady than it was to the one-off deep debt write off which followed a few years later at the start of its economic transition.
- By contrast, Brady treatment the Philippines was totally inadequate to do so, while Bulgaria, Mexico, Uruguay, and Morocco were also denied sufficient write-offs, forcing them to run persistently growth-hostile primary surpluses.
- For those denied sufficient write offs under Brady and HIPC, there was not the much-referenced "lost decade" but a "lost three decades, and counting". Given the scale and duration of those losses, the oft-cited "better than nothing" defense of those debt initiatives is cold comfort.

These data are detailed in Table 6.

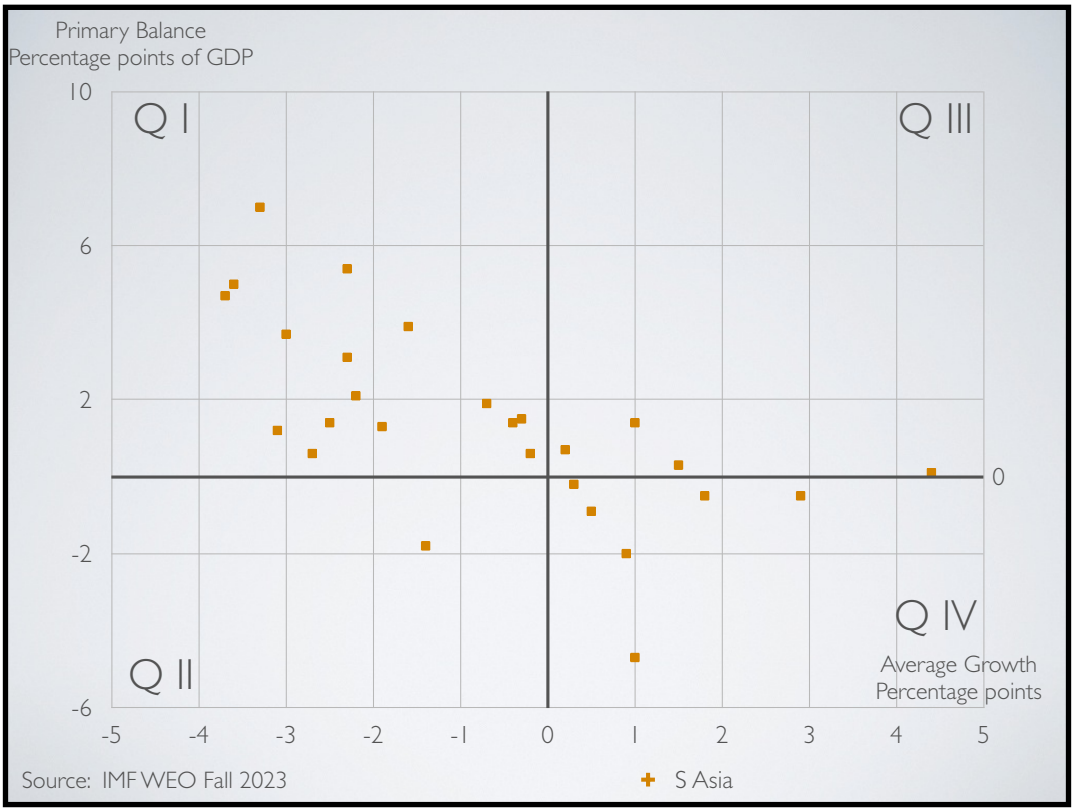
Table 6. Deviations from Fitted Synthetes: 1990-2019 Brady Plan

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Mexico	18,714	1.2	121
Bulgaria	15,757	1.6	95
Morocco	6,034	2.0	67
Philippines	5,541	3.9	56
Uruguay	16,743	1.6	50
Argentina	20,196	0.2	74
Costa Rica	14,573	0.3	41
	Quadrant II		
Dominican Republic	11,230	0.2	-3
	Quadrant IV		
Poland	20,154	-0.5	-5
Memo Items: Oil cases excluded			
Ecuador			
Nigeria			
Venezuela			
. Insufficient data			
BRAZIL			
Source: Fall 2023 IMF WEO			

South Asia

The South Asian group illustrates that while a growth-friendly neighborhood can offset some of the harm from sub-optimal primary balances, it can only do so to a limited extent.

Figure 15. Deviations from Fitted Synthetes, 1990-2019: South Asia



Note:

- The dot to the far right, just above the X axis is China. This highlights a driver of Chinese success since 1990 that is overlooked. Though much Chinese growth reflects simply that it stopped the worst of the output-destructive Maoist policy paradigm, a key further factor is something it did not then get wrong: it did not run primary balances deviant—on either side—from the fitted synthete at its level of GDP per capita.
- Thus, that its growth rate was so far above the moving average synthete confirms, as noted in Section IV (i) above, that "other factors" in addition to the primary balance are also key to growth.
- And China's thus evident exceptional performance also confirms the procedure adopted in calculating the synthetes of dropping the highest growth countries in composing each synthete so that growth potential is not exaggerated by such singular case outliers.
- As a result, note that Quadrants III & IV are dominated by countries in South Asia. That is suggestive of the importance of living in a high growth neighborhood—notably near China—so that such countries secured high per capita growth rates even when their primary balances were somewhat deviant—in either direction—from the synthete optima.
- Nevertheless, this high growth region also, remarkably, features five countries—Kiribati, Micronesia, Solomon Islands, Tonga, and the Marshall Islands—in Quadrant 1, manifesting extreme primary surpluses like Jamaica, with comparable output foregone. Thus, the hit to output from excessively tight primary balances overwhelmed the considerable benefit of living in a high growth neighborhood, underscoring the quantum of damage done by such primary balances.

These data are detailed in Table 7.

Table 7. Deviations from Fitted Synthetes: 1990-2019 South Asia

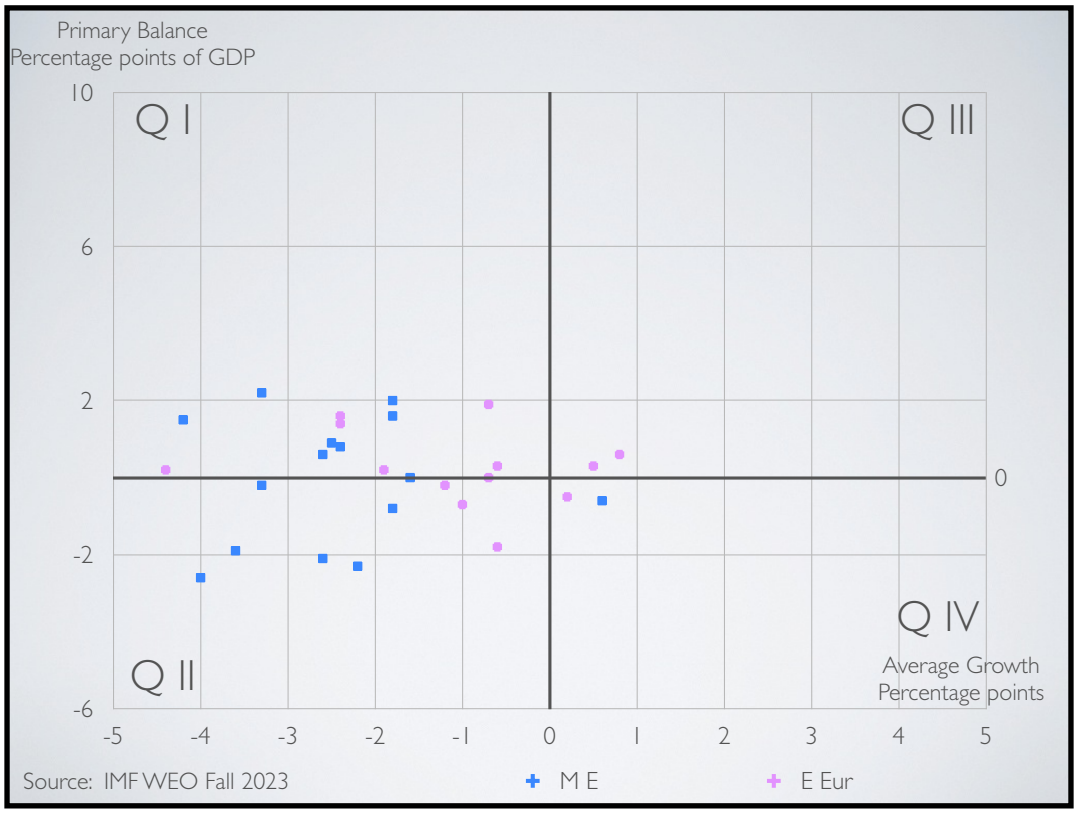
Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Kiribati	1,867	4.7	185
Micronesia	3,130	5.0	181
Solomon Islands	2,199	7.0	154
Vanuatu	2,549	1.2	140
Tonga	4,866	3.7	131
Samoa	4,675	1.4	105
Marshall Islands	3,344	5.4	91
Papua New Guinea	3,115	3.1	89
Fiji	10,596	2.1	88
Nauru	5,612	1.3	72
Philippines	5,541	3.9	56
Indonesia	7,435	1.9	23
Thailand	12,405	1.4	11
Nepal	2,392	1.5	9
Palau	12,859	0.6	113
Malaysia	18,208	0.6	5
	Quadrant II		
Mongolia	6,872	-1.8	49
Cambodia	12,859	-0.5	107
	Quadrant III		
Bhutan	6,143	1.4	-23
Bangladesh	3,200	0.7	-4
Vietnam	5,168	0.3	-34
China	6,629	0.1	-70
	Quadrant IV		
India	3,407	-2.0	-22
Maldives	15,663	-4.7	-25
Sri Lanka	8,000	-0.2	-8
Lao P.D.R.	4,051	-0.9	-12
Myanmar	2,202	-0.5	-55

Source: Fall 2023 IMF WEO

Eastern Europe and the Middle East

The European cases confirm the benefits of moderation in primary balances, while the Middle East illustrates the dangers to output of excess in either direction.

Figure 16. Deviations from Fitted Synthetes, 1990-2019: Eastern Europe and the Middle East



Note:

- Per capita growth in Eastern European countries performed reasonably relative to fitted synthetes, not only benefitting from the long-term upside potential of starting from Central Planning Mechanisms but also by moderation in their primary balances—in either direction.
- This was aided in Poland and Bosnia's cases—in stark contrast to the HIPC and most other Brady cases—by deep initial debt write offs facilitating their implementation of primary balances in accord with those indicated by the fitted synthete at their levels of GDP per capita.
- And the region also escaped the Western Hemisphere's misfortune of IMF mission teams bent on unrestrained financial deregulation.
- Despite a primary balance conforming to the synthete for its level of GDP per capita, the single exceptionally poor performer was Ukraine, reflecting sustained structural policy shortcomings.
- And the Middle-Eastern group is the first such which is relatively evenly distributed between Quadrants I and II, in both cases with overall larger deviations of primary balances from fitted than Eastern Europe, and thus correspondingly with larger output losses relative to best.

These data are detailed in Table 8.

Table 8. Deviations from Fitted Synthetes: 1990-2019 Eastern Europe and Middle East

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Moldova	7,894	1.4	99
Bulgaria	15,757	1.6	95
Türkiye	18,097	1.9	31
Ukraine	10,810	0.2	255
North Macedonia	11,992	0.2	73
Albania	8,310	0.0	21
Kosovo	6,986	0.3	19
MONTENEGRO	14,077	0.0	2
	Quadrant II		
Belarus	12,678	-2.1	43
Croatia	21,559	-1.8	20
Hungary	23,058	-0.2	40
Romania	18,097	-0.7	31
	Quadrant III		
Serbia	11,373	0.3	-12
Bosnia and Herzegovina	8,922	0.6	-21
	Quadrant IV		
Poland	20,154	-0.5	-5

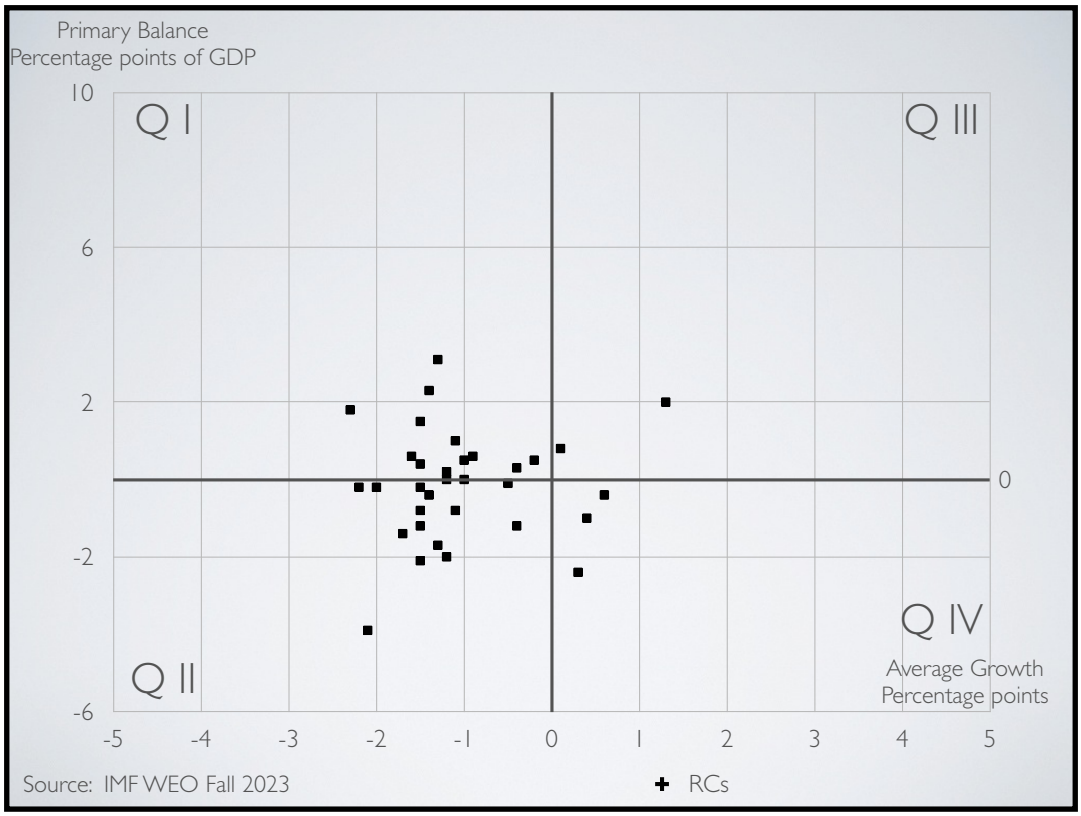
ource: Fall 2023 IMF WEO

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Mauritania	15,069	2.2	108
Uzbekistan	4,318	1.6	68
Morocco	6,034	2.0	67
West Bank and Gaza	8,817	1.5	64
Tajikistan	2,152	0.6	107
Georgia	8,084	0.9	100
Pakistan	4,181	0.8	94
SOMALIA	1,101	0.0	28
	Quadrant II		
Kyrgyz Republic	3,910	-2.6	215
Djibouti	3,701	-1.9	174
Lebanon	3,910	-2.3	169
Sudan	4,220	-2.1	111
Yemen	3,422	-0.9	434
Jordan	9,597	-0.2	153
Egypt	9,510	-0.8	66
Tunisia	8,817	-0.0	57
Armenia	2,094	-0.6	0

Rich Countries

This group is notable as the only one apart from the Middle East which is evenly split between the first and second Quartiles, rather then being concentrated in the first (Jamaican) output foregone Quartile.

Figure 17. Deviations from Fitted Synthetes, 1990-2019: Rich Countries



Note:

- Almost all are within +/- 2 percentage points of fitted synthete primary balances, with the outliers being Italy, Belgium, and New Zealand in Quadrant I and Japan in Quadrant 2.
- Additionally, none exhibit the extreme absolute shortfalls in growth relative to fitted synthete that populate the other—notably African, South Asian, and Western Hemisphere—groups. But as "best" growth is lower at higher incomes (Figure 3), the percentage shortfalls relative to best that are associated with deviations from best primary balances are also high.
- Relative to the continental groups, the concentration of Rich Countries in Quadrant II may reflect their latitude to borrow in their own currencies—and their structural abuse thereof. The implication arising from that concentration in Quadrant II is that even though rich countries may be able to engage in considerable cyclically-adjusted borrowing, they may not be well-advised to do so, and, give their numbers, that caution also refers to Japan and to the United States.

These data are detailed in Table 9.

Table 9. Deviations from Fitted Synthetes: 1990-2019 Rich Countries

Country	GDP per Capita 1990-2019 Average US$ 2017 International US$	Primary Balance 1990-2019 Average deviation from best fitted In percentage points of GDP	Output loss Potential on best peer policies relative to 2019 outturn In percent of 2019 outturn
	Quadrant I		
Italy	41,655	1.8	91
Denmark	49,145	1.5	52
Belgium	44,600	2.3	51
New Zealand	34,533	3.1	44
Iceland	45,745	1.0	35
Canada	42,532	0.6	55
Germany	45,821	0.4	52
Netherlands	48,376	0.2	43
Sweden	43,988	0.0	42
PUERTO RICO	31,025	0.0	40
Cyprus	34,007	0.0	34
Luxembourg	102,558	0.5	32
Israel	31,882	0.6	30
Estonia	23,728	0.3	11
Hong Kong SAR	44,489	0.5	6
ANDORRA	57,433	0.0	0
SAN MARINO	69,085	0.0	0
Ireland			
	Quadrant II		
Japan	37,541	-3.9	79
France	41,839	-1.4	61
United Kingdom	40,288	-2.1	53
Spain	35,008	-1.2	52
United States	51,783	-1.7	43
Czech Republic	29,761	-2.0	42
Slovenia	29,377	-1.2	11
Greece	29,471	-0.2	88
Switzerland	62,186	-0.2	78
Finland	41,382	-0.2	55
Portugal	29,802	-0.8	51
Austria	48,141	-0.4	49
Australia	41,878	-0.8	38
Latvia	18,921	-0.1	15
	Quadrant III		
Korea	28,460	2.0	-30
Malta	31,768	0.8	-2
	Quadrant IV		
Slovak Republic	21,510	-2.4	-9
Lithuania	21,231	-1.0	-11
Singapore	67,680	-0.4	-16

Source: Fall 2023 IMF WEO

Two Halves

That caution against borrowing just because you can is reinforced from consideration of two sub periods for two of the rich countries, with the dividing line between the two halves the same, 2010.

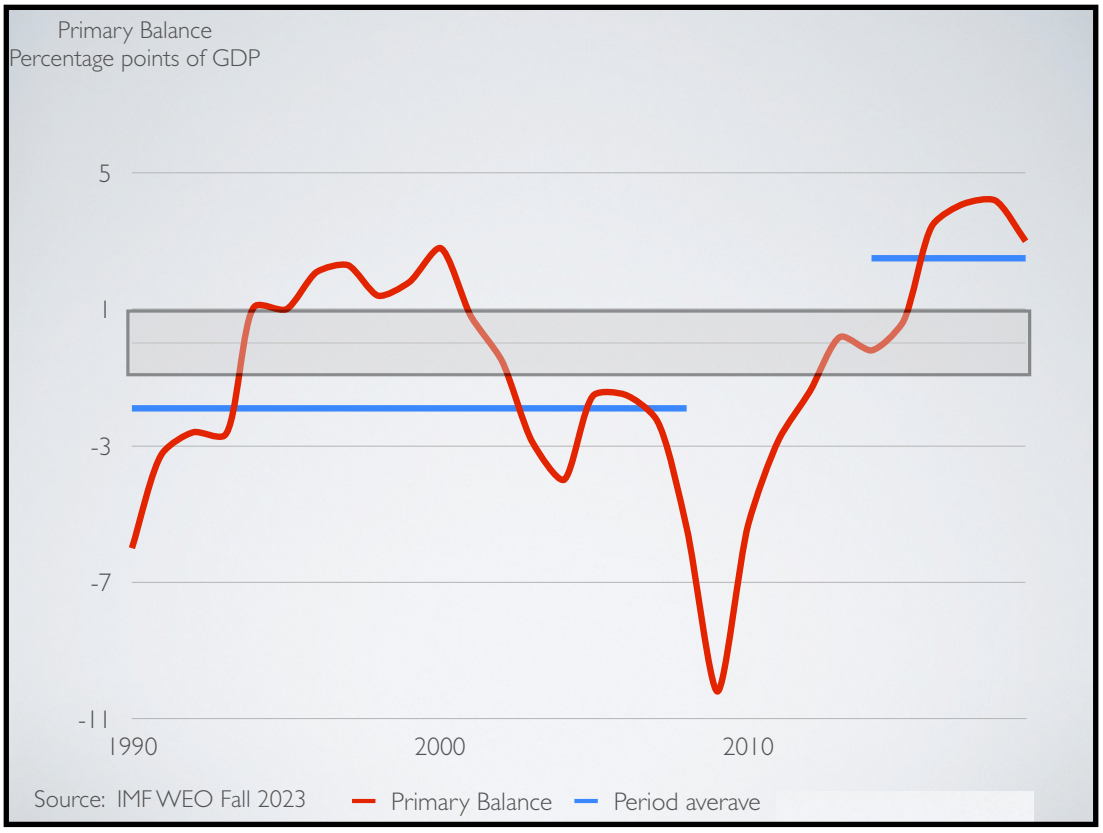
The two cases are Greece and the United Kingdom.

The consolidated 1990-2019 result of this exercise for Greece indicates that, overall, its primary balance broadly tracked the fitted best peer synthete for its level of income.

But that aggregate comprised two very different sub-periods, before and after the Euro Area crisis. This decomposition is shown in Figure 18.

The red line shows Greece's annual primary balance, the shaded block indicates the target band for Greece, and the blue lines show the average Greek primary balances in the pre GFC period, and after output stopped falling from 2015.

Figure 18. Two Halves, Primary Balance: Greece



Note:

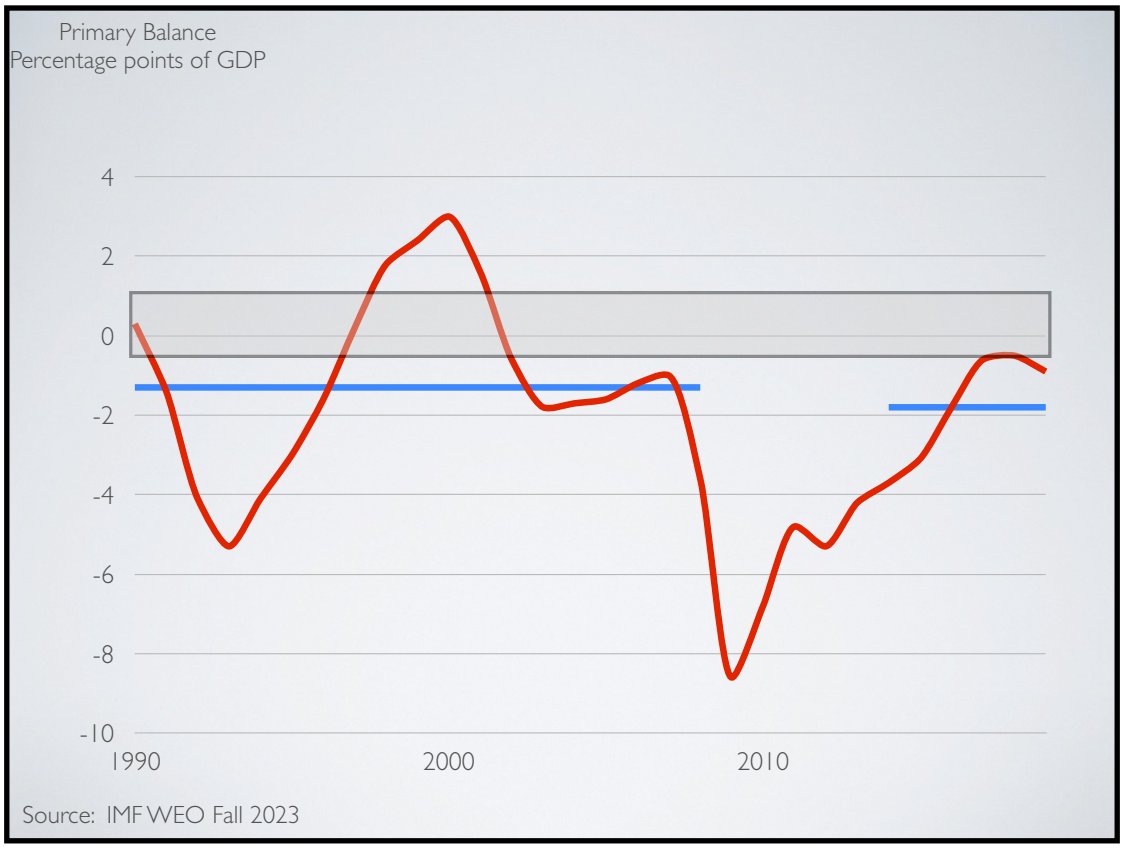
- Greek primary balances reflected "output squandered" prior to the GFC, lying well outside the optimal range. Had this analysis been run on Greece even in embryonic form, it would have flashed

red concerning fiscal disorder from as early as 2002 when the primary dropped below the target band. But in its absence, as Greece could borrow heavily and easily, the imbalances went on to manifest in the Greek and Euro crises.

- But after crisis adjustment, the primary balance was driven by IMF and Euro Area conditionality to the opposite extreme, now lying well above the target band.
- Thus, Greek trend growth has been hit, first by undershooting and then by overshooting the target band. These two sub-periods "cancel out" in the 1990-2019 aggregate (Table 9)—which is why the whole period aggregate indicates that primary balances in Greece complied with best practice.
- But the key implication is that policy has veered from one error to the other, with the debt write offs under the serial IMF and Euro Area 2010-2015 programs for Greece, as for HIPC and for most Brady Countries, insufficient to allow it to move onto a best-practice growth path now.

In turn, the United Kingdom history of two halves marks a telling contrast to Greece, not least as, contra Greece, the aggregate measure for 1990-2019 shows the UK's primary balance as too weak.

Figure 19. Deviation from Fitted Synthete: United Kingdom



Note:

- Like Greece, trend UK primary balances were significantly weaker than the target band best practice for the UK's level of income in the first sub-period. And they were weak despite the UK, for much of that period, adhering to the "golden rule" of borrowing only to invest. The implication is that rule, far from golden, was misspecified—implicitly focussing on debt sustainability rather than

on securing the optimal balance of borrowing relative to taxation to fund the public goods necessary for growth relative to best peers.

- But unlike Greece, in the second sub-period—with average primaries in the figure also dated from 2015 to adjust for residual cyclical effects of the GFC and British austerity—the UK's average primary balances, already too weak, became even weaker relative to optimal. Thus, the UK used the fall in interest rates after 2008 to flatter its overall deficit while weakening the structural primary balance even further relative to best.
- Thus, the implication is that the UK, after running a structural primary in 1990-2009 that was too weak, then mistimed and overdid austerity from 2010 while simultaneously targeting a medium-term primary that was even weaker than its already inadequate starting point. All this was at the compound cost to UK output. In addition to other factors, this offers a structural fiscal account of the UK's poor and marked post 2009 deterioration in productivity growth. If the second of the two periods (halves) is dated from before 2015, these points emerge even more strongly from the data.
- That this perspective on the UK is new reflects the almost exclusive focus of fiscal balance analysis in the UK on multipliers and debt sustainability rather than on its structural impact on trend growth. That is compounded by the predilection of the British Government, indulged by UK economists and mimicked throughout the rich world, to use peer comparisons simply as short-term "oneupmanship" exercises, with comparators—sometimes the G7, sometimes major European, sometimes EU or Euro Area, sometimes OECD, sometimes global, sometimes just a carefully selected period from the UK's own past—picked capriciously to suit any given short-term oneupmanship claim. In contrast, the peer group here is, remarkably, novel, namely the best performers at UK level of GDP per capita whomever and wherever they are, and over the long run.
- If the UK is now going to correct its sizeable structural primary balance weaknesses over time, that fiscal correction, however and whenever it occurs, will be demand-contractionary. To make the fiscal correction—however it is composed between taxation and expenditure—without demand contraction, the Bank of England will have to offset that fiscal impulse. Its capacity to do so may be aided by raising its inflation target at least until that sizeable underlying correction is complete.

Two Currency Unions

Similarly, a comparison between the Euro Area and the CFA Zone—pegged to the Euro, and to the French franc prior to that—for 1990-2019 is informative.

Taking each union as a single economic bloc, and aggregating from 1990-2019 thus encompassing both the long preparations for Euro adoption through the 1990s and its realization, the headline results are reported in Table 10.

Table 10. Deviation from Synthete: Euro Area and CFA Zone

	GDP per Capita	Average Growth Rate	Primary Balance	Difference from Best 1990-2019	
	1990-2019	1990-2019	1990-2019	Per Capita GDP	Primary Balance
	Average US$	GDP Per Capita	Average deviation from best fitted	Growth Rate	
	2017 International US$	In Percent	In percentage points of GDP	in percentage points	in percentage points of GDP
Euro Area	40,755	1.3	0.1	-1.6	0.1
CFA Franc	2,702	0.7	0.0	-2.2	1.8
Source: Fall 2023 IMF WEO					

Note:

- In contrast to much criticism of the aggregate fiscal stance and rules of the Euro Area, the average primary balance—excluding the global recession years of 1991, 2001, and 2008—was almost exactly as indicated by the fitted synthete as best for growth performance at its level of real GDP per capita.
- Yet Euro Area growth fell well short—over 1½ percentage points annually, compounded over three decades—of best growth for its level of income. Contrary to the Delors Report, that reduced trade transactions costs and strengthened credibility in a deep single currency alongside best fiscal policy and the single market would see growth exceeding non-Euro best peers, the reverse is so.
- What caused that shortfall is unclear. Most likely is that while the errors on either side of the optimal primary arithmetically cancel out—with German and Italy on the upside and others on the downside (Table 9), thus indicating primary balance optima at bloc level—the damage to growth from both sets of errors compounded. Other factors include inherent Euro mis-design (beyond absence of crisis prevention and resolution mechanisms brought to light by the Euro crisis), country composition, and shortfalls in non-monetary and non-fiscal balance policies. As with Brexit, the original Euro advocates asserted there would be output benefits; when output losses emerged instead, those were dismissed as secondary to sovereignty objectives.
- That the Euro has so significantly underperformed should raise profound questions of the wisdom of proposals to form currency unions elsewhere, including in East Africa let alone Pan African. It should also challenge the European rule that entry (or re-entry in the case of the UK) to the European Union must include adoption of the Euro.

- In contrast to the Euro Area, the aggregated fiscal stance of the CFA has been considerably tighter than indicated by the fitted synthete at its level of GDP per capita. And that has been accompanied by growth very far short—over 2 percentage points annually, compounded over three decades—of best peers. That puts the CFA zone firmly in Quadrant I, alongside Jamaica.
- The evidence, however, suggests that the fiscal stance—reflecting the inadequacy of debt write offs implemented under HIPC (see above)—does not fully account for that CFA-block growth underperformance. In particular, peers in the CFA GDP per capita neighborhood with independent currencies which delivered similarly excessively tight primary balances achieved higher per capita growth than the CFA (See Annex 3). CFA country-weighted inflation and GDP deflators over this period at 3.3 and 3.9 percent respectively, both a little above the Euro are 2 percent target, do not indicate that systematically over-tight monetary policy accounts for those CFA growth shortfalls relative to those of its peers with independent currencies. So other factors in the composition, design, or operation of the CFA zone, or/and other deviations of structural policy from best peer practice are compounding the effects of excessive primary surpluses in CFA block per capita growth shortfalls.
- The overall significant underperformance of the CFA zone overlaps with the principal sources of uncontrolled migration to Europe and the Sahel coup belt. Correcting excessively tight primary balances could significantly help to address the problem of small boats crossing the Mediterranean and chronic political instability in this region.

VI. IMF PRIMARY TARGETS NOW

Section V establishes, as indicated in Section IV, that far from Jamaica being unique, that over 100 countries across all regions of the world—including notably among rich countries, Italy, and all individually listed in the preceding tables—have also delivered excessively tight primary balances over 1990-2019 in order to sustain debt, at heavy cost to output.

So the condition at the end of Section IV that, if so, the focus for reform of Sovereign Insolvency Arrangements should shift away from tinkering to suit the convenience of creditors to reforms to pre-empt such excessive and growth-hostile primary balances is more than fully satisfied.

And this was the global state of affairs prior to the Covid and Ukraine shocks. While, in that context, IMF has raised much-cited alarums about the consequent "debt distress", the preceding discussion indicates that there was a major prior "growth distress" problem—of which the IMF itself, by demanding primary balances above synthete optima, was a primary cause.

Some development and climate experts and activists cite recent IMF alarums as backing their calls for increased financing for the Global South. But they should note that the main IMF means of addressing debt distress is—evidently—not to activate debt stock adjustments at scale, but is instead to raise medium-term primary surplus targets further, at high cost to medium- and long-term growth.

That prospect is underscored by consideration, in light of Sections IV and V, of the medium-term primary balance targets proposed right now by the IMF—and imposed by it for all its current program cases.

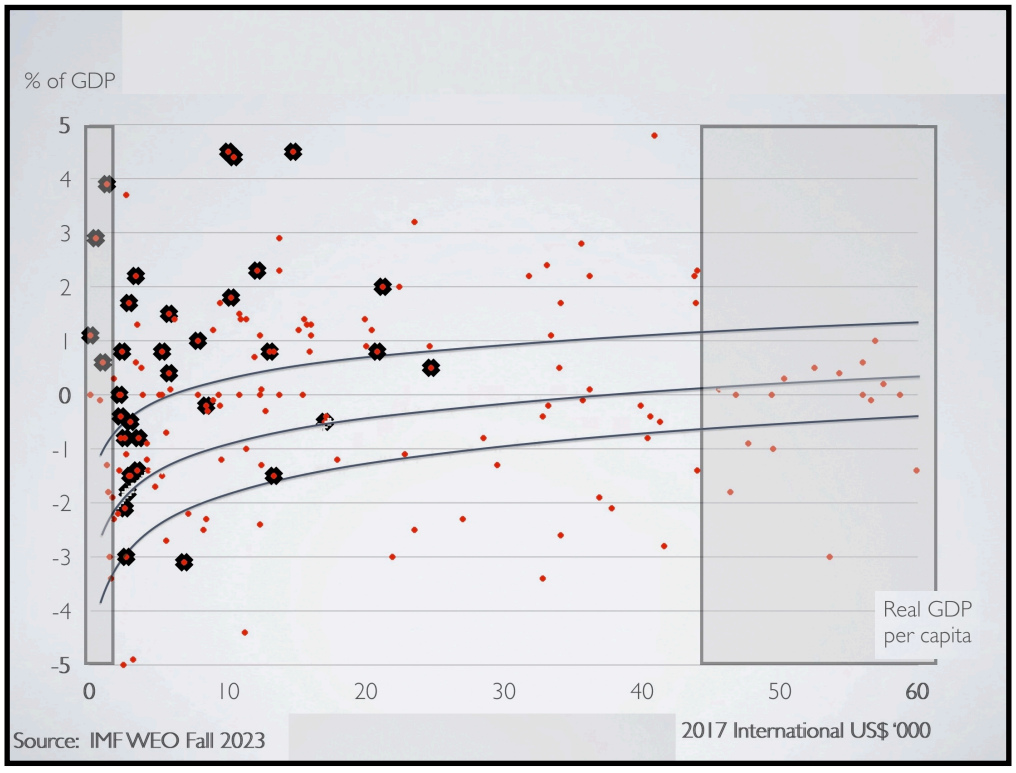
Those current IMF proposed targets are presented in Figure 20.

The red dots represent countries not currently in programs with the IMF. The larger blackened dots represent countries in current programs with the IMF—i.e., where IMF disbursements are conditional on progress towards these specified primary balance targets, which are thereby not just recommended but mandated.

The two shaded blocks, as above, show the levels of GDP per capita in which the estimated primary balance optima are based on assumed growth rate potential at those levels of income, and on the fitted estimates of the optimal primary balances.

Figure 20 represents the sixth anchor result of this paper.

Figure 20. Current IMF Primary Balance Targets for 2028



Note:

- As anticipated from Figure 1, there is an enormous scatter in IMF medium-term targets, even without the few—including Tonga—which are so extreme they cannot be shown on the scale in Figure 19. With the estimated optima and target band identified, the clear implication is that most current IMF targets for the primary balance for 2028 do not reflect best peer practice.
- At the lowest levels of income on the left-hand side of the figure, most of the targets which are outside the target band range are above it, and sometimes well above it, motivated by the aim of securing debt repayment without write-offs: i.e, S = 0. That is particularly evident in the distribution of targets in the IMF program cases in this GDP per capita neighborhood.
- That bias is particularly costly given evidence from Figure 3 of a growth springboard at these low levels of income, the implication of which is the particular damage done to output by excessively tight medium-term primary balance targets rather than debt stock adjustments in this income range.
- Moving a little up the income per capita scale, remarkably there are some cases, even one program case, Bangladesh, with a medium term primary balance target of -3.1 percent of GDP which is significantly below the target band.
- Nevertheless, the overall bias in this GDP per capita neighborhood remains in the other direction. Such countries include, it seems inevitably, Jamaica, with a medium term primary surplus target under a program of 4 1/2 percent of GDP, but two others, Mauritania and Barbados, are also under similar extreme IMF program duress. The given motivation is debt repayment without write offs.
- Almost all the ongoing debt restructuring cases—including Zambia, Sri Lanka, and Ghana—include medium-term primary balance targets well above the target band, indicating that the debt stock adjustments under those programs are too small, repeating the practice of most of the HIPC cases and setting up those countries for a similar sustained medium- to long-term growth below potential.
- And in Ghana's case, imposition of above-target-band primary balances now replicates there the example of Greece discussed above—where after a long period of below-target-band primary balance outturns, above target band primaries were forced, damaging Greece's (and Ghana's) medium-term growth in both contexts. The sole case delivering within-band targets is Somalia.
- Moving into the income per capita range from US$ 25-45,000, there are no programs, but the distribution of targets becomes more balanced (random?), with broadly as many IMF targets well above the target band as below it.
- But notably, moving to the far right-hand side of the figure, into the shaded block of the rich countries, the bias in the targets shifts decisively to below the target band. Notable among them is the UK, with a recommended target of a deficit of 1.8 percent of GDP. The IMF appears therefore to be particularly accommodative of the richest countries relative to the primary balance optima, at the expense of medium-term growth there, while showing the opposite bias relative to optima in the case of the lowest income countries, also at the expense of medium-term growth there.

These data are detailed for the current programs in Table 11 below.

Those programs with primary balance targets for 2028 above the target band are listed first, are ordered by the deviation from the top of the band at their levels of GDP per capita, and are highlighted in red.

Then programs with primary balance targets for 2028 inside the target band but above the average best fitted performance are then listed, and are ordered by their deviations from the average best fitted primaries at their levels of GDP per capita.

And last, the three programs with medium-term primary balance targets for 2028 below the target band are listed.

Table 11. IMF Program Primary Balance Targets for 2028, Relative to Target Band Top and Average.

		2028					
		IMF Program Primary Balance Targets					
		Program Target	Fitted Best Target	Program difference from Best		Excess of IMF Primary target over top or average of Target Band	Shortfall of IMF primary balance target to average or bottom of Target Band
Country		In percent of GDP	In Percent of GDP	In Percentage Points of GDP		In Percentage points of GDP	In percentage points of GDP
Mozambique		3.9	-2.3	6.2		4.8	
SOUTH SUDAN		2.9	-3.1	6.0		4.5	
Mauritania		4.5	-0.9	5.4		4.2	
Jamaica		4.4	-0.9	5.3		4.1	
Barbados		4.5	-0.6	5.1		4.0	
Zambia		2.2	-1.7	3.9		2.6	
Papua New Guinea		1.7	-1.8	3.5		2.2	
Sri Lanka		2.3	-0.8	3.1		1.9	
Central African Republic		0.6	-2.5	3.2		1.7	
Ghana		1.5	-1.3	2.8		1.5	
Jordan		1.8	-0.9	2.7		1.5	
The Gambia		0.8	-1.9	2.8		1.4	
Costa Rica		2.0	-0.4	2.4		1.3	
Kenya		0.8	-1.4	2.2		0.9	
Cabo Verde		1.0	-1.1	2.1		0.9	
MALAWI		0.0	-2.0	2.0		0.6	
Pakistan		0.4	-1.3	1.7		0.5	
Peru		0.8	-0.7	1.5		0.4	
Burkina Faso		-0.4	-2.0	1.5		0.2	
Serbia		0.8	-0.4	1.2		0.1	
Tanzania		-0.5	-1.8	1.3			
Guinea-Bissau		-0.8	-1.9	1.1			
Morocco		-0.2	-1.0	0.9			
Senegal		-0.8	-1.6	0.8			
Chile		0.5	-0.3	0.7			
Ethiopia		-1.5	-1.8	0.3			
Benin		-1.4	-1.6	0.2			
North Macedonia		-0.5	-0.5	0.0			
Haiti		-1.8	-1.8	0.0			
Rwanda		-2.1	-1.9	-0.2			
Moldova		-1.5	-0.7	-0.8			
Guinea		-3.0	-1.8	-1.2			-0.1
Bangladesh		-3.1	-1.2	-1.9			-0.9
Tonga		-11.4	-1.3	-10.1			-9.1
Source: Fall 2023 IMF WEO							

Note:

- All program cases with 2028 Primary Balance targets above the best peer average are a source of concern for misspecification of conditionality—and that is almost all of the current programs.
- Of those, the cases of Mozambique, South Sudan, Mauritania, Jamaica (inevitably), and Barbados are of particular—not to say alarming—concern for being far above the top of the target band.

- But so are three of the current flagship debt stock operation programs in Zambia, Sri Lanka, and Ghana.

Overall, the IMF's claim to have moved beyond its auto-diktat of Fiscal Consolidation that certainly by reputation disfigured its earlier counsel—a transformation symbolized by the diversity now apparent in its senior management with the Managing Director, the First Deputy Managing Director, and the Director of the key Policy and Development Review Department all, at last, female—is not borne out in the data or in the programs.

Instead, the institution is continuing, even at last led by women, to recommend and impose in its programs severely growth-hostile medium-term primary balance targets in order to avoid debt stock adjustments, especially at lower levels of income per capita, while accommodating fiscal squandering in rich countries.

This conduct not only violates its obligation of equal treatment of its members. But it is also much to the cost of women in their millions across the affected low-income countries, including in Jamaica, as well as to their sisters in the rich world.

VII. IMPLICATIONS

The two questions posed above setting the stage for Section V—is there a robust basis on which to determine optimal medium-term primary balance targets, and are many other countries in Jamaica's predicament even if not to its degree?—have both been answered in the emphatic affirmative.

The implications follow:

(i) For Economics

Since Pigou, macroeconomics has defined itself by focus on large shortfalls of output from potential. To date, it has entirely restricted itself to those deviations consequent on monetary and fiscal policy delivering a stance, transmitted on the demand side over the short run, that is too tight.

But the evidence is that such deviations also arise from primary balances outside the target band. These transmit on the supply side and over the long run from a structural fiscal stance that is too tight and when countries with latitude for structural borrowing over do it. Both far outstrip in incidence and degree those deviations which have constituted the defining focus of macroeconomics hitherto.

Thus, on quanta alone, those supply-side output losses derived from errant structural fiscal stances warrant at least a place alongside those from the demand side in standard core Macroeconomics.

Relatedly, there is also need to review the standard perimeter defining the topic of Development Economics as being concerned almost entirely with paradigms for what countries outside the Rich World can do to promote their own development—i.e., framing the subject exclusively in the "small-open economy" model, with everything else—from capital flows, to trade preferences, to global interest rates and demand—treated as exogenous.

Instead, Primary Balances and Stock Adjustments are two policy instruments remaining in the debt equation after structural policy has determined "g" and policy framework credibility has determined

"r". In that context, disorders in the determination of "S" can be (frequently are) effectively determinant of development outcomes in the long run.

The discussion also emphasizes need to move away from the typical abstractions proposed as paradigms for development—import substitution, export led, third generation, heterodox, or new industrial policy. It also eschews learning general lessons therein from freakish outliers—including the first four East Asian Tigers, given their unique "endowment" of a dominating US security interest, or those like Ireland with leprechaun data—often celebrated as *the* Development models.

Instead it draws inspiration from the best performers at the next tier down, those who did well absent unique endowments or circumstances, drawing inspiration from the aggregation of their policy frameworks at each level of GDP per capita. Regardless the sources of best practice for sector policies or for individual budget instruments, these countries should be primary informants for the aggregate and macroeconomic policy paradigm—including their distributions of land and their primary balances.

Many countries fall short of best peer growth performance even with primaries inside the target band—including the Euro Zone bloc as a whole. So being inside the band is certainly not sufficient to realize potential, even if shortfalls there may also reflect the sensitivity of output to even small deviations from the average best primary balances.

But compound evidence from 1990-2019 confirms the damage done by being outside the band: the stark scarcity of countries in Quadrants 3 & 4 outside it; that those few which are there are all near to high-growth China (which is firmly inside the band); that primary balances outside the band even badly damage outturns for countries near to China; that Ukraine aside, large growth shortfalls are absent in within-band Eastern Europe; that of all best performing countries dominating the synthetes (Table 2), only Lesotho and Cabo Verde had primaries significantly outside the band, the former above by 1.8 percentage points of GDP and the latter below by 3 percentage points; and the evidence worldwide that countries outside the band with otherwise sustained strong policy frameworks, including in the HIPC group and much of the Brady group, all fall far short—with Jamaica the star witness. Being inside the band is not sufficient to realize potential, but in aggregate, it is necessary.

In that regard, concerns about the number of countries in each synthete used to calculate the width of the target band are moot. Here, six countries are used; it could be eight or ten. But increasing the number widens the estimated band only marginally but doing so incorporates countries into that calculation whose growth rates are far from "best". The estimated band width is robust.

Last, this entire approach suggests a compelling practicable definition and measure of "odious debt"—which has eluded ever since that key notion was proposed. Rather than rooting it in contestable evidence and evaluations of the historical record, sovereign debt which cannot be sustained within the target band should be written off. In other words, implicitly as in personal and corporate bankruptcies, whatever the genesis of sovereign debt, it is not odious only if it does not inhibit best growth—as indicated by debt sustainability inside the target band at each country's GDP per capita.

(ii) For the IMF Executive Board

The IMF practice of setting medium-term primary balance targets above the target band to drive debt payment evidently incurs major costs in global output foregone. Moreover, programs doing so use conditionality to enforce sub-optimal policy and violate the principle, long-established in personal and corporate bankruptcies, that preservation of output takes precedence over preservation of debt.

That practice at least partially insures creditors' returns, so lenders—both public and private—are incentivized to finance low quality activities in developing countries, including those which are corrupt and unsustainable—as Sri Lanka 2020. Given their governance fragilities, even developing countries which have managed to elude those incentives and outturns remain perpetually vulnerable to that trap.

And the punitive case for doing so—to teach sovereign borrowers the lesson of hard budget constraints, as in Greece and Ghana with earlier primary balances below the target band now matched by those above it—thereby bails out creditors on which, given their relative technical expertise, the greatest credit governance burden should fall. Moreover, that "educational" motivation for punitive treatment of borrowers is embarrassed by the almost universal inability of even those highly trained and experienced sovereign debt experts who espouse it—including the IMF—to spot unprompted the glaring slip/error omitting "S" in the standard presentation of the debt equation.

Over 60 IMF member countries in Quadrant I and above the target band long before Covid would benefit, and substantially, from termination of this IMF practice—and even more would do so now after Covid. That includes almost all the current program cases, and all of those at the lowest incomes in the neighborhood of the "growth springboard", as well as those elevating primary surpluses in order to pre-empt risk of succumbing to IMF programs—including South Africa. Their collective problem is not debt distress; it is growth distress. And it is not "output squandered", it is "output foregone".

The core to the solution is to announce an embargo on IMF program medium-term primary balance targets above the target band at each country's level of income.

The arrangements for such a "Preemptive Sovereign Insolvency Regime" are outlined here. They reflect structures now standard for resolving global systemic banks over long weekends and would be as swift for sovereign debtors.

In that context, the two IMF modules measuring debt sustainability should be retained and improved. But both should be run subject to the restriction that the medium-term primary balances must be inside the target band range at the GDP per capita of each country so evaluated. And the best peer growth at each level of GDP per capita, the center of the band from Figure 4, should constitute the upper bound for medium-term growth rates projected in those DSAs.

All that would require backup from a substantial upgrade in the IMF Lending Into Arrears Policy to provide full swift finance for countries undergoing such debt stock operations. That would leave old creditors to distribute losses amongst themselves, no longer able to hold countries endlessly hostage in debt restructuring processes. The IMF would have no role in that distribution, nor given the target band, much discretion over their quanta. That avoids both of the core fallacies and the complete omission of the target band, all of which warranted complete rejection of the earlier SDRM proposal.

The benefits of doing so would go far beyond the program cases. With such a framework established, non-program countries with strong policy discipline which hitherto chose to run primary balances above the target band to try to reduce risk of falling into the current restructuring processes would no longer see need to do so. They could instead run primary balance objectives inside the target band.

This agenda would, finally, put an end to IMF stigma, once and for all, by putting an end to its cause. These goals have been accomplished in individual cases before. The special debt packages for Poland in two tranches in 1991 and 1994 and for Bosnia in 1996-97, and those under the Brady Plan for

Argentina, Costa Rica, and the Dominican Republic set them on paths which reconciled growth optimal primary balances with debt sustainability. So several of those appear as "best peer countries" on which others should model. Other packages, notably HIPC, many other cases under the Brady Plan, and Greece did not measure up, and of the current debt operations the IMF is implementing, only that for Somalia does so.

Thus, the proposed primary metric of any debt operation should not be the infinitely malleable depth of NPV debt reductions, or cash flow effects, even less so whether or not a "deal" is reached, but the binary question: has the medium-term primary balance target been brought back into the target range?

That the "best cases" doing so—Poland, Bosnia, Argentina, Costa Rica, and the Dominican Republic —as well as the most disastrous—Greece—are all, variously, clients to particular dominant IMF shareholders, reflects uneven IMF governance, despite its mandate to treat all members equally. The proposed binary question would ensure, henceforth, equal treatment of all IMF members.

These actions to curb low quality lending to sovereigns should be buttressed by an International Ex Ante Transparency Standard. That grandfathered step to end secrecy in the exact terms of borrowings would benefit those in Quadrant II (Ghana) by helping to curb their systematic over borrowing as well as those in Quadrant I by raising the quality of the borrowing they do undertake (Kenya). Such a Standard, applicable to all foreign borrowings issued under foreign jurisdictions save stand-alone IMF SBAs, depends on enforcement by the few major jurisdictions governing debt resolution processes. Given the macroeconomic and developmental implications, the IMF should end its creditor-accommodative silence on this and call for such a standard to be nested in those major jurisdictions.

This full package of reforms to IMF practice would end the analogy of IMF actions to debtors' prisons. Note that their abolition for persons was not won by pointing out the quantum of "output foregone" but only when the "victims" gained "voice"—when the franchise was extended to them. In this way, calls for equalization of voice and quotas in the IMF are not just about "reflecting the current global economy" but global economic efficiency. If the IMF continues resisting calls for reform, countries adversely affected will seek another lender of last resort, even if such is dominated by China.

And in epochal geo-strategic terms, a key motive for thus promoting growth throughout the world now would be to facilitate the shift in global output away from the location of prospective disorderly bi-lateral conflict between the world's two biggest economies to the still-ordered rest of the world.

However, the favored IMF "fiscal squandering" narrative is not without merit. Countries in Quadrant II can both raise their debt carrying capacity and their trend rates of growth simultaneously by tightening primary fiscal positions into the target band. Such countries are disproportionately rich and are disproportionately over-represented on the IMF Executive Board.

As example of this, had this analytical framework been applied even in embryonic form at the time, it would have given loud—and increasingly so—early warnings about Greece from as early as 2002.

(iii) For IMF Management and Departments

This entire analysis could not have been more than embryonic more than 15 years ago for want of enough full long country data sets.

But the fact that none of the IMF's Policy and Development Review, Fiscal Affairs, Research, Western Hemisphere, of African Departments, or its Independent Evaluation Office either conducted it in embryonic form before then or proposed it in full form thereafter, despite many Board papers on Debt Resolution arrangements in that time, speaks to the suppression of searching internal questioning of the IMF's institutional fiscal squandering and debt preservation narratives. That raises questions about work culture and prioritization of Departmental work schedules.

That absence is also therefore a matter on which IMF Management should be held to account.

Furthermore, IMF mission chiefs should be acquainted intimately with the aggregate of the policy frameworks underpinning their country's best peers' successes—including their primary balances—to strengthen the integrity of both surveillance and program conditionality.

The target band numbers can be applied to oil-dependent economies once their oil revenues are converted into fixed annual drawdowns of the NPV of those endowments.

(iv) For Multilateral Development Banks

This agenda is for the IMF to do, but given MDBs' mandate for development, is theirs to champion.

It raises a core conundrum for them, however. Their embargo on extending credit to countries lacking IMF endorsement runs into difficulty when IMF denial reflects its insistence that countries move their primary balances above the target band or go even higher if already there. That puts the MDB role as enforcers for the IMF—including as applied to Jamaica—directly at odds with their mandates for development.

The IBRD, as Queen of MDBs, can—and should—protest this contradiction on their collective behalf in the program review process in individual cases by challenging the associated above-target-band primary balances the IMF proposes. However, the numbers of countries concerned and the distances from target band in many cases mean the issue is systemic rather than country specific.

In particular, the overwhelming majority of IDA-eligible countries are in Quadrant I, with a large subset running primary balances above—and sometimes well above—the target band (Annex 4). In these cases, the contradiction between twin roles of the IBRD as concessional lender and as enforcer for IMF of output-hostile primary balance targets bites particularly hard.

So the IBRD along with other MDBs in the name of their development mandates should lead the call for reform—for the IMF always to restrict the primary balances in its debt sustainability exercises to those inside the target band, and to press for an International Ex Ante Transparency standard.

In doing so, they should not seek exemption of their own loans from the transparency rule or consequent debt stock adjustment on grounds of seniority or the grant element. Full inclusion of MDB credits would fully activate their own exceptional technical expertise in sovereign credit assessment and facilitate acceptance of the framework by all creditors. The grant element should be unbundled and disbursed as such at origination, not somehow extracted when restructuring is initiated.

And just as for IMF mission chiefs and for the same reasons, IBRD desk officers should be intimately familiarized with the best peer policy frameworks for the countries under their charge.

(iv) For Rich World Capitals

The US and UK should grandfather the proposed International Ex Ante Transparency Standard into their legislation governing such Sovereign credits worldwide.

Furthermore, the IMF practice of raising medium-term primary targets above the target band and longstanding issues of disorderly immigration—including small boats in the Mediterranean and issues as the Southern US border—are connected because that practice drives stagnation and the associated supply of economic migrants.

Brute border deterrence is thus not the answer. As the current sovereign debt resolution framework resides principally in the US and UK legal jurisdictions, they can address both matters simultaneously.

All that should be a central element in reviews of "aid budgets". Given that the long-run hit to hit to growth in the Developing World from ex ante non-transparency and the IMF driving primary balances above the target band is orders of magnitude greater than anything supportive of growth in aid budgets, absence of these matters from aid reviews completely undermines their integrity.

(v) For Fiscal Frameworks

Countries with policy discretion to do so—mostly outside Quadrant 1—should formally adopt medium term targets for their primary balances inside the target band range as part—and central parts—of their fiscal frameworks. Amongst other benefits, that would curb inclination to structural excess borrowing including when interest rates fall sharply and ease debt sustainability, as in the UK post 2010, and as noted, it would have provided very early warning about Greece.

That proposal would mark a particular innovation for the Euro Area, where fiscal frameworks have hitherto been exclusively focussed on debt rather than on growth sustainability. In addition to such targets for the Euro Area as a block, similar targets for each Euro Area member would highlight the need for further debt resolution for Greece, as well as action for Italy—both in Quadrant I. Otherwise, both will remain stagnant and thus a threat to the vitality of the Monetary Union.

The ability of other Euro Area members to bear the burden of such write-offs is aided by the fact that many of them are in Quadrant II (Table 9)—so a tightening of their structural primary balances will raise their collective debt carrying capacity (including asset write offs) and raise their trend growth, while those in Quadrant I, including Germany, can similarly raise trend growth and so debt carrying capacity by structurally loosening.

Adoption of the proposed target band by the ESM would also, by activating creditor incentives to ensure credit quality, preempt risk that such stock adjustments would violate the Euro Area's embargo on sovereign risk pooling. That would require enhanced Euro Area financial regulation and supervision so that such future debt stock adjustments in the Euro Area did not raise systemic risks.

The new EU fiscal rules ignore all this, leaving the zone on its underperforming vulnerable trajectory.

A disproportionate number of Rich Countries should accordingly tighten their primary balances. That includes the UK—which should disregard current IMF counsel to aim below the target band, not least as that advice has reversed from two WEOs ago when it was to aim above the target band, a shift of

some 4 percentage points of GDP in 12 months. The best composition of revenue and expenditure actions to do so is a separate matter.

(vi) For Debt and Climate activists

The salient macroeconomic measure of fiscal and developmental stress is not the much-quoted "interest or debt service payments are some striking multiple of current spending on some favored standard item or items"—not least because if all else is well, that can readily be financed regardless how eye-popping the multiple. Instead, the salient measure is the gap between the medium-term primary balance target and the target band.

Furthermore, in that context "Drop the debt for climate justice" is a seductive slogan but is evidently too sweeping. Countries in Quadrant I need to "drop their primary balances" back into the target range, not to have all their debt cancelled. That implies considerable diversity of treatment. Initiatives which do not properly accommodate such diversity—such as the Covid Debt Service Suspension Initiative—will simply not be taken up by their supposed beneficiaries.

Furthermore, the many countries in Quadrant I will be highly averse to acquiring additional debt which climate activists—including under the Bridgetown Initiative—seek to impose upon them, even if some other debt is cancelled alongside. And if such climate debt is imposed regardless, then IMF primary balance targets will rise even further above the target band to secure debt sustainability.

That may please some climate activists who like both the climate conditionality in the new lending and attenuation of developing countries' growth prospects—and hence emissions—consequent on further elevation of IMF medium-term primary balance targets.

But apart from its other shortcomings, that "degrowth" agenda, imposed on those least responsible for the global stock of emissions, merely increases space for the rich countries to emit more.

And it is not new. Jamaica and the scatter of States in its extreme neighborhood in Quadrant I in Figure 10 are all first in line for hits from warming. And elevated primary surpluses imposed on them for thirty years, by preventing growth, have curbed their emissions. But the exorbitant cost to their welfare has not even collectively so much as scratched the global emissions challenge, nor, despite "all in this together", done anything to shame those who are responsible for the global stock of emissions into any kind of action.

Last, calls for another SDR issue would constitute a helpful stock adjustment. But distribution should prioritize those countries most above the target band in order to maximize the global output benefits.

Thus, the core of climate action should focus not on getting finance to go where it does not want to go but on resolving the core of the emissions problem in those countries responsible for the stock of emissions, in the rich world, where finance very definitely does want to go. And a core of the development agenda should be to get medium-term primary balance targets into the target band.

(vii) For The Global South

Most calls to "reform the international monetary system" are generic, and so miss the target.

Those calls should headline demands for an ex ante transparency standard and that IMF medium-term primary balance targets be kept within the target band. The latter will require adoption of a Preemptive Sovereign Insolvency Regime. But the combination of both will yield enormous benefit to the efficiency of global capital flows and to realizing growth potential worldwide.

To that end, demands for equal voice on the IMF Executive Board should persist, not based on Justice or representation of the current global economy, but on grounds of global economic efficiency. Bar a Damascene conversion at that Board, such voice reform is a precondition for this framework.

Alongside, press for the global solution to warming to be delivered by those responsible for the stock of emissions—primarily the Rich Countries—rather than those responsible for the flows. Apart from the additional constraint on growth from emissions conditionality, the first consequence of additional debt imposed on the Global South for climate adjustment will be for the IMF to raise primary balance targets further, and further above the target band, all at the further expense of output.

And in that context, model development strategies on best peers in the GDP per capita neighborhood.

As part of that, beware forming transnational currency unions, no matter how politically and culturally symbolic. The Euro Area has significantly underperformed despite its optimal aggregate fiscal stance for reasons which have yet to clarify. So has the CFA Franc Zone, although much of that appears to derive from the above-target-band primary balances the French Tresor and the IMF have imposed there. But, equally, only leave a currency union after thorough preparation and execution.

(viii) For The World

Haiti has has suffered most in history from excessive primary balance targets. After the first successful rebellion of owned people and under duress from Napoleon's naval blockade in response, Haiti's revolutionary leaders acceded to French government demands to transfer huge reparations in form of debt payments to people owners in France in compensation to them for loss of their human property.

That upward debt stock adjustment, strongly endorsed and enforced by other People-Owning powers —including by President Thomas Jefferson followed by dozens of his US successors—forced the Haitian primary balance upwards and likely far above the target band for the next two centuries.

That, as intended and despite reschedulings, crippled Haiti's development. Self-liberating Haitians were thus kept impoverished by their "creditors" as example to other owned people minded to imitate —in the name of full payment of sovereign debts i.e., orthodoxy. France has yet to make amends.

But as of now and at last, the IMF primary balance target for Haiti is finally within the target band.

So with that at least finally achieved for Haiti, even if the proposals above are completely ignored, the world should execute a special bespoke debt operation for Jamaica to put its primary balance inside the target band and thus render it consistent with its growth potential. With the current IMF primary balance program target still far above that band, what has been done there by the IMF since 1990, all in the name of orthodox economics is—and still is—unconscionable.

Peter Doyle
Washington DC
January 1, 2024

Annex 1

Oil

- Countries concentrated in oil—identified by value added over 4 percent of GDP in 2019—are excluded both from synthete construction and from assessments of deviations therefrom because it is evident from the IMF data that there is no standardization in the accounting treatment of oil in revenue. So, reflecting such different accounting treatment, Equatorial Guinea recorded a primary deficit of over 500 percent of GDP in 1992, while Norway reports surpluses of 10 percent of GDP. To avoid distorting the global results, all such cases—20 of them—are excluded from all analysis. The excluded cases are listed in Table 1 below.

Table 1. Oil as share of value added.

Country Name		2019	2020	2021	
Algeria		14.1	9.0	14.5	
Angola		27.5	18.6	28.3	
Azerbaijan		20.5	11.1	21.0	
Bahrain		9.8	6.7	10.9	
Brunei Darussalam		9.0	3.5	10.4	
Chad		15.6	9.2	16.8	
Congo, Rep.		35.9	22.4	34.4	
Ecuador		5.5	2.6	6.4	
Equatorial Guinea		18.8	10.8	14.9	
Gabon		16.7	10.0	15.6	
Iran, Islamic Rep.		20.1	13.3	18.3	
Iraq		40.2	27.0	42.8	
Kazakhstan		13.3	7.1	14.8	
Kuwait		38.7	27.6		
Libya		32.8	9.2	56.4	
Nigeria		6.5	3.3	6.2	
Norway		4.5	3.2	6.1	
Oman		21.6	15.0	23.5	
Qatar		14.5	10.6	15.3	
Russian Federation		8.5	4.7	9.7	
Saudi Arabia		24.3	16.0	23.7	
Suriname		4.6	3.0	7.9	
Timor-Leste		12.6	2.8	5.3	
Turkmenistan		5.8			
United Arab Emirates		15.7	10.5	15.7	
Venezuela, RB					

Source: https://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS

Annex 2

Other Data Adjustments

Four further adjustments to the underlying global WEO data are made which do not significantly affect the robustness of the overall results but clean it:

- In various cases, the WEO GDP per capita data does not go all the way back to 1990. Where the shortfall was only 5 or so years and where reasonable proxies for the missing years could

be made, they were made on grounds that any errors in such estimates would have little effect on the estimates for total income per capita growth between 1990 and 2019.

- Similarly, in various cases, the primary balance data were not available back to 1990. In cases where missing data could be inferred from the outturns for overall balance—such as for the US—they were. And in others, average outturn data for 2000-2019 was used as estimate of the missing data, again on grounds that this would allow use of the available data.
- As the purpose of the synthete exercise is to derive optimal primary balances beyond the cycle from average of best performing countries, primary balance outturns dominated by global recessions are eliminated. Thus, the data for estimation of all average primary balances relative to GDP excludes the data for 1991, 2001, and 2009.
- And last, WEO fiscal data for a small number of HIPC countries are based not on the typical cash, but on an accruals basis. In such cases, when debt relief is agreed, the data report gigantic primary surpluses reflecting the one-off income transfer generated by the relief—mostly in just 2006. To avoid those huge one-off numbers distorting measures of average primary balances from 1990-2019, the primary balance data for those individual years in those individual cases is excluded.

All these data adjustments are detailed in the underlying spreadsheet which is available on request.

Annex 3

CFA synthete

Growth underperformance in the CFA zone relative to best peers could reflect both the structural fiscal stance tighter than the best peers or/and other factors related to the design and operation of the currency union.

To decompose the shortfall into these two sets of factors, a further balanced best peer synthete was constructed for the CFA zone. The synthete was formed from countries in the CFA GDP per capita neighborhood with independent currencies on the same +/- 20 basis as for all other synthetes, but instead of then ranking those +/- 20 by growth, they were ranked by deviation from best primary.

The results are reported below.

Table 2. CFA Synthete

	Average GDP/ Capita 1990-2019	Average annual growth of GDP/ Capita 1990-2019	Average Primary Balance 1990-2019	Difference from Best 1990-2019	
	2017 InternationalIUS$ '000	in percent	In percent of GDP	Per Capita GDP Growth Rate in percentage points	Primary Balance in percentage points of GDP
CFA Zone	2,702	0.7	0.0	-2.2	1.8
Democratic Republic of the Congo	1,009	-1.8	0.1	-5.4	2.6
Nicaragua	4,388	2.2	1.1	-1.9	2.5
The Gambia	2,201	-0.3	0.1	-3.9	2.0
Morocco	6,034	2.4	0.7	-1.8	2.0
Indonesia	7,435	3.5	0.9	-0.7	1.9
Uzbekistan	4,318	2.3	0.2	-1.8	1.6
Nepal	2,392	3.3	-0.3	-0.3	1.5
Samoa	4,675	1.6	0.0	-2.5	1.4
Tanzania	1,771	2.4	-0.7	-1.2	1.4
Uganda	1,714	3.1	-0.8	-0.5	1.3
Synthete	3,826	2.3	0.1	-1.6	1.8
CFA less Synthete	-1,124	-1.6	-0.1	-0.6	0.0

Source: Fall 2023 IMF WEO

As for other synthetes, once the outlier cases are deleted, CFA excess primary is the same as the synthete excess primary at 1.8 percentage points of GDP (See far right column).

However, growth shortfalls in the CFA relative to its best peers of 2.2 percentage points of GDP are greater than the growth shortfalls in the best peer synthete relative to theirs, of 1.6 percentage points of GDP (see penultimate column).

The implication is that growth shortfalls in the CFA zone do not just reflect the excess primary balances, but that there are additional factors compromising growth in the CFA. These may be factors in the composition, design or operation of the CFA, or/and other structural policy factors.

Annex 4. IDA-eligible countries — Deviations from best peers

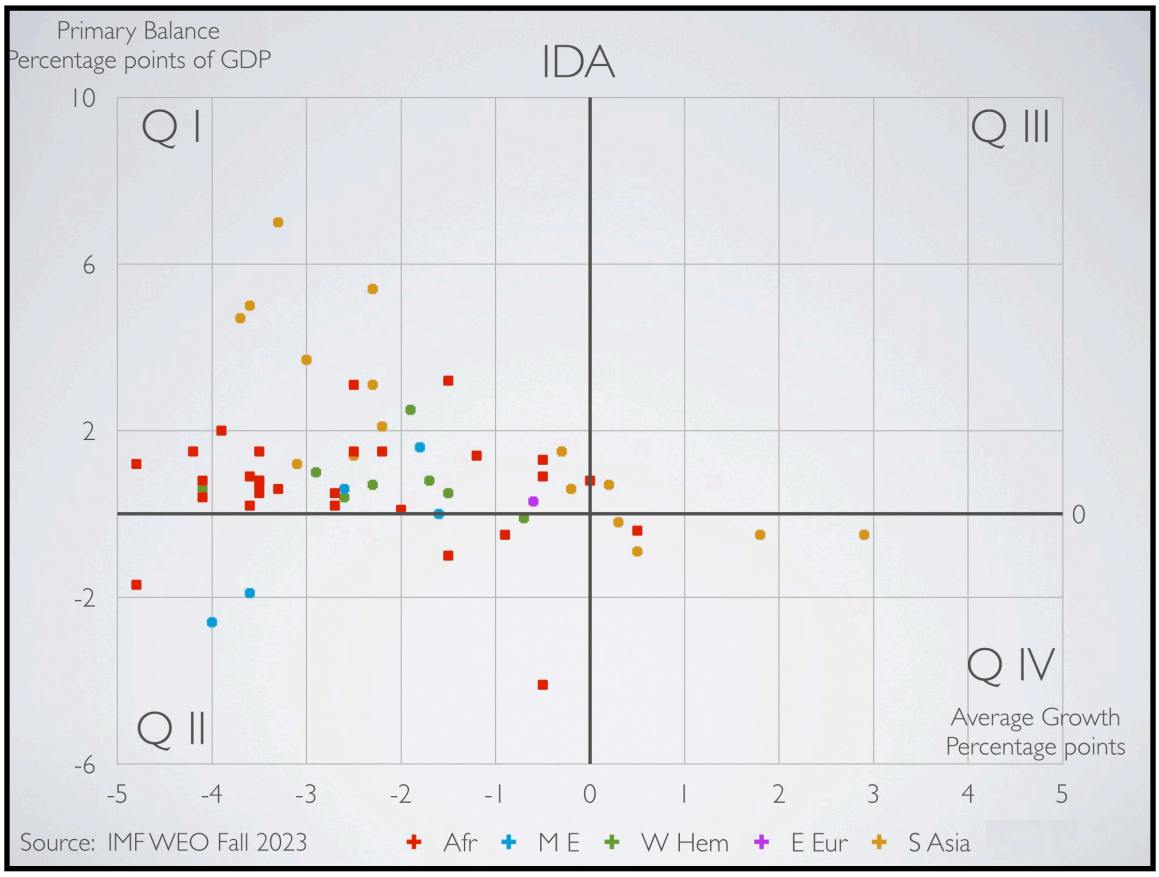


Table 3. IDA Eligible Countries.

	GDP per Capita	Primary Balance	Output loss
	1990-2019	1990-2019	Potential on best peer policies
	Average US$	Average deviation from best fitted	relative to 2019 outturn
	2017 International US$	In percentage points of GDP	In percent of 2019 outturn
		Quadrant I	
Democratic Republic of the Congo	1,009	2.6	379
Central African Republic	1,119	1.2	290
Côte d'Ivoire	4,157	1.5	225
The Gambia	2,201	2.0	208
Kiribati	1,867	4.7	185
Micronesia	3,130	5.0	181
Cameroon	3,186	1.5	170
Solomon Islands	2,199	7.0	154
Vanuatu	2,549	1.2	140
Tonga	4,866	3.7	131
Senegal	2,706	1.5	105
Samoa	4,675	1.4	105
São Tomé and Príncipe	2,851	3.1	101
Marshall Islands	3,344	5.4	91
Papua New Guinea	3,115	3.1	89
Fiji	10,596	2.1	88
Benin	2,543	1.5	85
Nicaragua	4,388	2.5	73
Uzbekistan	4,318	1.6	68
Lesotho	2,196	3.2	52
Tanzania	1,771	1.4	41
Uganda	1,714	1.3	16
Nepal	2,392	1.5	9
Madagascar	1,651	0.8	223
Sierra Leone	1,418	0.4	222
Haiti	2,965	0.6	221
Kenya	3,925	0.9	177
Comoros	2,881	0.8	173
Liberia	1,474	0.7	172
Togo	1,749	0.8	168
Niger	1,040	0.6	157
Honduras	4,579	1.0	126
Guinea-Bissau	1,967	0.5	117
Zambia	2,649	0.2	113
Zimbabwe	2,649	0.2	112
St. Lucia	13,323	0.4	109
Tajikistan	2,152	0.6	107
Dominica	10,240	0.7	90
Guinea	1,751	0.5	85
MALAWI	1,802	0.0	74
Mali	1,802	0.1	74
St. Vincent and the Grenadines	10,506	0.8	61
Grenada	12,361	0.5	52
Kosovo	6,986	0.3	19
Rwanda	1,287	0.9	17
Malaysia	18,208	0.6	5
Mozambique	841	0.8	1
SOUTH SUDAN	580	0.0	0
		Quadrant II	
Burundi	836	-1.7	293
Kyrgyz Republic	3,910	-2.6	215
Djibouti	3,701	-1.9	174
Eritrea	1,657	-7.2	141
Cabo Verde	5,338	-4.1	14
Cambodia	12,859	-0.5	107
Tunisia	8,817	-0.0	57
Ghana	3,605	-1.0	52
Burkina Faso	1,478	-0.5	30
Guyana	8,813	-0.1	21
		Quadrant III	
Bangladesh	3,200	0.7	-4
		Quadrant IV	
Sri Lanka	8,000	-0.2	-8
Lao P.D.R.	4,051	-0.9	-12
Ethiopia	1,234	-0.4	-12
Myanmar	2,202	-0.5	-55
Source: Fall 2023 IMF WEO			