

Online Appendix to:
“Does Compliance Matter? Assessing the Relationship between
Sovereign Risk and International Monetary Law,” forthcoming, *Review*
of International Organizations

Stephen C. Nelson
Assistant Professor
Department of Political Science
Northwestern University
stephen-nelson@northwestern.edu

January 19, 2010

This online appendix contains supplementary tables referred to in the published version of the article. The dataset and Stata commands used to generate the results are found in the *Review of International Organization*'s electronic repository.

This document contains the results from the following supplementary analyses:

- (1) Models of the determinants of sovereign risk ratings using two alternative estimators: (a) OLS with robust standard errors adjusted for clustering by country; (b) fixed effect vector decomposition regressions with an AR(1) correction for serial correlation (see footnote 23 in the article);
- (2) The results of the selection-corrected models and additional robustness checks when the key explanatory variables related to compliance with Article VIII obligations are lagged by 3 years (footnote 27).

Table 1: Determinants of Risk Ratings (OLS, Std. Errors Clustered by Country)

Independent variables	DV: <i>Institutional Investor</i> rating, OLS		DV: <i>Euromoney</i> rating, OLS	
	(1) 1-year lag	(2) 3-year lag	(3) 1-year lag	(4) 3-year lag
Article VIII _{t-1,3}	-4.520 (2.898)	-3.010 (3.144)	-4.166 (2.735)	-1.240 (3.233)
Restriction _{t-1,3}	-1.442 (2.551)	-1.373 (2.534)	-1.024 (2.521)	-1.055 (2.583)
Noncompliance _{t-1,3}	9.392** (3.079)	9.722** (3.438)	10.016** (3.159)	9.427* (3.874)
Reserves/debt _{t-1}	-0.0002 (0.015)	0.004 (0.015)	0.004 (0.014)	0.011 (0.014)
BOP/GDP _{t-1}	-0.064 (0.062)	-0.066 (0.058)	-0.109 (0.074)	-0.107 (0.072)
Debt/GNI _{t-1}	0.012 (0.010)	0.012 (0.010)	0.018 (0.009)	0.018 (0.010)
GDP growth _{t-1}	-0.369* (0.150)	-0.354* (0.151)	-0.573*** (0.158)	-0.542** (0.173)
GDP per capita _{t-1}	-0.003*** (0.0007)	-0.004*** (0.0007)	-0.003*** (0.0009)	-0.003*** (0.0009)
Inflation _{t-1}	0.0007 (0.0005)	0.0004 (0.0004)	0.001 (0.0006)	0.0006 (0.0006)
Trade openness _{t-1}	0.019 (0.037)	0.016 (0.038)	0.028 (0.034)	0.018 (0.036)
Regime type _{t-1}	-0.103 (0.149)	-0.117 (0.152)	-0.156 (0.179)	-0.197 (0.188)
Political instability _{t-1}	2.368 (1.394)	2.371 (1.461)	3.374* (1.442)	3.344* (1.566)
% Years in Default	0.257*** (0.064)	0.263*** (0.062)	0.159* (0.063)	0.153* (0.066)
Openness _{t-1}	-5.620** (1.743)	-6.109*** (1.776)	-7.733*** (1.847)	-8.487*** (1.979)
IMF program _{t-1}	5.666*** (1.172)	6.014*** (1.189)	4.935*** (1.304)	5.207*** (1.348)
Currency Crisis _{t-1}	1.722* (0.816)	1.911* (0.786)	1.832 (1.075)	2.027 (1.044)
Shift Left	1.744 (1.882)	1.273 (1.996)	1.402 (2.583)	0.792 (2.815)
Constant	70.173*** (3.981)	70.169*** (3.924)	59.583*** (4.255)	59.921*** (4.304)
No. of observations	1,102	1,073	1,032	999
R ²	0.51	0.53	0.43	0.42

Note: Robust standard errors corrected for clustering by country in parentheses below OLS coefficients;
 *significant at 10%; **significant at 5%; ***significant at 1% level and below.

Table 2: Fixed Effects Vector Decomposition Models of Sovereign Risk Ratings¹

Independent variables	DV: <i>Institutional Investor</i> rating; XTFEVD		DV: <i>Euromoney</i> rating; XTFEVD	
	(1) 1-year lag	(2) 3-year lag	(3) 1-year lag	(4) 3-year lag
Article VIII _{t-1,3}	-0.975*** (0.271)	0.045 (0.274)	3.897*** (0.777)	7.182*** (0.786)
Restriction _{t-1,3}	-1.153*** (0.225)	-0.170 (0.220)	-1.674* (0.635)	-2.630*** (0.620)
Noncompliance _{t-1,3}	3.219*** (0.335)	1.344*** (0.355)	7.872*** (0.942)	6.831*** (0.995)
Reserves/debt _{t-1}	-0.020*** (0.003)	-0.041*** (0.003)	-0.014 (0.008)	-0.021* (0.009)
BOP/GDP _{t-1}	-0.021 (0.014)	-0.023 (0.014)	0.013 (0.038)	0.015 (0.039)
Debt/GNI _{t-1}	0.006*** (0.001)	0.007*** (0.001)	0.012** (0.004)	0.017*** (0.004)
GDP growth _{t-1}	-0.016 (0.016)	-0.009 (0.017)	-0.078 (0.043)	-0.059 (0.046)
GDP per capita _{t-1}	-0.006*** (0.0003)	-0.005*** (0.0004)	-0.009*** (0.001)	-0.010*** (0.001)
Inflation _{t-1}	0.0002 (0.0001)	0.0002 (0.0001)	-0.0001 (0.0004)	-0.0002 (0.0004)
Trade openness _{t-1}	-0.017* (0.007)	-0.027*** (0.007)	0.001 (0.017)	-0.011 (0.017)
Regime type _{t-1}	-0.044* (0.021)	-0.057* (0.022)	-0.282*** (0.059)	-0.265*** (0.060)
Political instability _{t-1}	-0.600** (0.196)	-0.510* (0.201)	1.573** (0.554)	1.411* (0.566)
% Years in Default	0.324*** (0.005)	0.315*** (0.005)	0.284*** (0.013)	0.265*** (0.015)
Openness _{t-1}	-2.712*** (0.171)	-1.827*** (0.174)	-5.791*** (0.463)	-5.704*** (0.467)
IMF program _{t-1}	0.582** (0.191)	0.409* (0.197)	1.988*** (0.508)	1.935*** (0.520)
Currency Crisis _{t-1}	2.258*** (0.293)	1.527*** (0.301)	2.382** (0.776)	2.098* (0.794)
Shift Left	-0.797* (0.329)	-0.325 (0.335)	0.413 (0.940)	-0.106 (0.956)
Constant	77.953*** (0.214)	76.875*** (0.211)	69.602*** (0.606)	71.095*** (0.603)
No. of observations	1,018	990	930	899
Adjusted R ²	0.56	0.50	0.78	0.77

Note: Fixed effects vector decomposition regression with correction for AR(1) serial correlation; *significant at 10%; **significant at 5%; ***significant at 1% level and below.

¹ In the fixed effect vector decomposition regressions, Article VIII, Restriction, Noncompliance, % Years in Default, Openness, Instability, Currency Crisis, and Shift Left are treated as the slow-moving variables.

Table 3: Selection Models of Risk Ratings (3-Year Lags for Article VIII Covariates)

<i>Independent variables</i>	DV: Article VIII (1) Probit, sel. stage	DV: IIR (2) 2nd-stage OLS	DV: Article VIII (3) Probit, sel. stage	DV: Euromoney rating (4) 2nd-stage OLS
Regional norm	0.048*** (0.006)		0.044*** (0.006)	
Universality	0.010 (0.008)		0.017* (0.008)	
Article VIII _{t-3}		-4.083 (2.892)		-1.333 (3.247)
Restriction _{t-3}		-2.280 (3.254)		-4.634 (3.086)
Noncompliance _{t-3}		8.611* (3.744)		11.873** (3.865)
Reserves/debt _{t-1}	-0.0006 (0.001)	0.001 (0.010)	-0.001 (0.001)	0.008 (0.013)
BOP/GDP _{t-1}	-0.009 (0.010)	-0.110 (0.118)	-0.002 (0.011)	-0.169 (0.120)
Debt/GNI _{t-1}	0.0008 (0.001)	-0.0004 (0.005)	0.001 (0.001)	0.014 (0.009)
GDP growth _{t-1}	-0.003 (0.011)	-0.590*** (0.161)	-0.004 (0.012)	-0.722*** (0.184)
GDP per capita _{t-1}	0.0001 (0.0001)	-0.004*** (0.0007)	0.00009 (0.0001)	-0.003*** (0.0008)
Inflation _{t-1}	-0.00008 (0.00007)	0.0002 (0.0004)	-0.0001 (0.0001)	-0.00001 (0.0009)
Trade openness _{t-1}	0.016** (0.005)	-0.028 (0.040)	0.014** (0.005)	-0.025 (0.036)
Regime type _{t-1}	0.020 (0.023)	-0.045 (0.156)	0.026 (0.022)	-0.066 (0.183)

	(1)	(2)	(3)	(4)
Political instability _{t-1}	0.019 (0.229)	1.357 (2.267)	-0.129 (0.229)	1.974 (2.619)
% Years in Default	0.003 (0.011)	0.386*** (0.076)	0.004 (0.011)	0.242*** (0.074)
Openness _{t-1}	-0.012 (0.255)	-10.343*** (1.589)	0.078 (0.241)	-12.672*** (1.843)
IMF program _{t-1}	0.097 (0.211)	6.724*** (1.821)	0.074 (0.224)	7.330*** (2.108)
Currency Crisis _{t-1}	-0.529*** (0.133)	1.209 (1.295)	-0.485*** (0.143)	0.729 (1.782)
Shift Left		0.413 (1.647)		-0.083 (2.556)
Constant	-4.603*** (0.568)	76.080*** (4.654)	-4.670*** (0.528)	62.079*** (5.080)
λ		-0.695 (1.874)		2.489 (1.942)
Observations	1,252 (430 uncensored)		1,234 (412 uncensored)	

Note: OLS coefficients in columns (2) and (4) from two-stage Heckman selection model (robust standard errors in parentheses). Columns (1) and (3) display probit estimates from first stage; *significant at 10%; **significant at 5%; ***significant at 1% level and below.

Table 4: Art. VIII Compliance and Sovereign Risk (Split Samples, 3-Year Lags)

Independent variables	DV: <i>Institutional Investor</i> rating		DV: <i>Euromoney</i> rating	
	(1) IMF program cases omitted	(2) Crisis cases omitted	(3) IMF program cases omitted	(4) Crisis cases omitted
Article VIII _{t-3}	-0.637 (1.290)	-2.794* (1.387)	-2.411 (1.738)	-2.256 (1.524)
Restriction _{t-3}	-0.319 (1.054)	-1.247* (0.518)	-1.529 (1.449)	-1.978* (0.951)
Noncompliance _{t-3}	2.836 (2.265)	3.524*** (1.040)	7.731** (2.710)	6.449** (2.155)
Reserves/debt _{t-1}	-0.005 (0.007)	-0.023*** (0.007)	0.017 (0.012)	0.008 (0.012)
BOP/GDP _{t-1}	-0.041 (0.041)	-0.026 (0.019)	-0.040 (0.072)	-0.068 (0.048)
Debt/GNI _{t-1}	-0.003 (0.005)	0.018*** (0.004)	0.006 (0.006)	0.021*** (0.005)
GDP growth _{t-1}	-0.015 (0.034)	-0.017 (0.020)	-0.167* (0.083)	-0.103 (0.055)
GDP per capita _{t-1}	-0.006*** (0.0007)	-0.004*** (0.0003)	-0.003*** (0.0008)	-0.003*** (0.0005)
Inflation _{t-1}	-0.00008 (0.0003)	9.24x10 ⁻⁶ (0.0001)	-0.001 (0.001)	-0.0002 (0.0004)
Trade openness _{t-1}	0.106*** (0.014)	0.012 (0.013)	0.068* (0.025)	-0.0004 (0.015)
Regime type _{t-1}	0.019 (0.110)	0.009 (0.066)	-0.286* (0.107)	-0.209*** (0.065)
Political instability _{t-1}	0.408 (1.021)	0.172 (0.374)	4.829** (1.579)	2.016* (0.819)
% Years in Default	0.503*** (0.066)	0.259*** (0.049)	0.303*** (0.079)	0.152*** (0.042)
Openness _{t-1}	-6.711*** (0.965)	-3.676*** (0.842)	-11.133*** (1.731)	-6.222*** (1.211)
Currency Crisis _{t-1}	1.723 (1.059)		-0.689 (1.633)	
Shift Left	2.727 (1.818)	0.848 (0.696)	3.254 (2.127)	-0.893 (0.900)
Constant	67.839*** (1.835)	76.028*** (1.774)	59.537*** (3.811)	66.697*** (2.065)
Number of countries	63	79	72	94
Number of obs.	452	999	406	928
R ²	0.97	0.96	0.93	0.91
Wald χ ²	2593.80	474.40	827.41	245.29
Probability > χ ²	0.0000	0.0000	0.0000	0.0000

Note: Panel corrected standard errors in parentheses below Prais-Winsten coefficients;
 *significant at 10%; **significant at 5%; ***significant at 1% level and below.

Table 5: Art. VIII Compliance and Sovereign Risk, 1979-1991 (3-Year Lags)

<i>Independent variables</i>	DV: <i>Institutional Investor</i> rating	DV: <i>Euromoney</i> rating
Article VIII _{t-3}	-1.729 (2.150)	2.197 (2.227)
Restriction _{t-3}	-1.603* (0.566)	-1.271 (1.263)
Noncompliance _{t-3}	3.870* (1.874)	4.770 (2.843)
Reserves/debt _{t-1}	-0.041*** (0.011)	-0.005 (0.022)
BOP/GDP _{t-1}	-0.041 (0.026)	-0.073 (0.082)
Debt/GNI _{t-1}	0.003 (0.004)	0.003 (0.006)
GDP growth _{t-1}	-0.046 (0.028)	-0.139 (0.084)
GDP per capita _{t-1}	-0.005*** (0.0004)	-0.003*** (0.0006)
Inflation _{t-1}	0.0001 (0.0002)	-0.0002 (0.0005)
Trade openness _{t-1}	0.030 (0.017)	0.032 (0.020)
Regime type _{t-1}	-0.077 (0.053)	-0.239* (0.107)
Political instability _{t-1}	-0.543 (0.545)	1.631 (1.427)
% Years in Default	0.484*** (0.062)	0.243** (0.077)
Openness _{t-1}	-2.411*** (0.729)	-4.266* (1.602)
IMF program _{t-1}	1.341* (0.501)	1.764 (1.030)
Currency Crisis _{t-1}	1.131* (0.491)	1.084 (1.064)
Shift Left	2.991*** (0.936)	-0.841 (2.396)
Constant	72.039*** (1.633)	62.395*** (3.153)
Number of countries	64	68
Number of observations	700	570
R ²	0.95	0.84
Wald χ^2	391.83	123.88
Probability > χ^2	0.0000	0.0000

Note: Panel corrected standard errors in parentheses below Prais-Winsten coefficients; *significant at 10%; **significant at 5%; ***significant at 1% level and below.

