Figure 3.11. An Empirical Model of Reforms: Convergence Toward a Target

Reform at time t
(i.e., change in the structural indicator between t and $t-1$)

Reform path

B

T "Operational target"

A

Level of the structural
indicator at time $t-1$
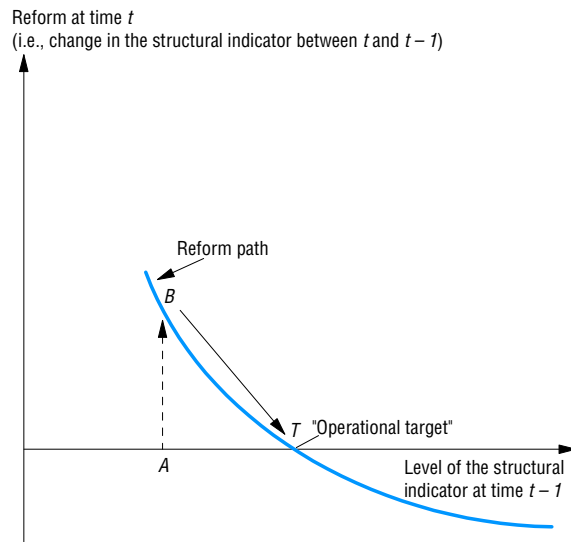
Note: The negatively sloped reform path ensures a convergence of structural conditions toward the targeted level T. A country initially located at point A would carry out pro-competititve reforms, starting at B until it reaches T. A positively sloped reform path would suggest that policymakers want to liberalize (regulate) even beyond the most market-friendly (rigid) regime (no convergence).