Reforms that reduce the income replacement rates of unemployment benefits are found to have statistically significant and long-lasting effects on the unemployment rate. However, such reforms have weaker, statistically nonsignificant effects during periods of slack.

Source: IMF staff estimates.

Note: \( t = 0 \) is the year of the shock. Solid blue lines denote the response to a major unemployment benefit reform; dashed lines denote 90 percent confidence bands; and solid red lines represent the unconditional result.

Figure 3.11. Unemployment Effects of Unemployment Benefit Reforms
(Percentage points; years on x-axis)