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The European Union's Role in International Economic Fora Paper 4: The IMF

Study for the ECON Committee

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The European Union's Role in International Economic Fora - Paper 4: The IMF

DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

The European Union's Role in International Economic Fora

Paper 4: The IMF

STUDY

Abstract

This paper forms part of a series of nine studies on the role of the European Union in international economic fora, prepared by Policy Department A at the request of the Committee on Economic and Monetary Affairs of the European Parliament. It provides factual background information about the International Monetary Fund (IMF) as well as about the EU's relations with the IMF (both in terms of the IMF's role in the EU and the EU's role, representation and impact in the IMF). The paper focuses in particular on the impact of IMF-EU relations in the wake of the financial crisis and explores issues of accountability, transparency and options for increased legitimacy also in the context of the "Troika" programmes across Europe, particularly in Greece. The strong influence of European policy-makers and institutions in the context of the "Troika" programmes raise not only fundamental questions about the future of EU-IMF relations, but also about transparency, legitimacy and accountability of financial assistance programmes as well as global and European global economic governance. The paper also considers wider reflections by non-EU members of the IMF on the more intensified involvement of the IMF in European affairs and provides ten concrete recommendations to members of the European Parliament.

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EXECUTIVE SUMMARY

The relationship between the International Monetary Fund (IMF) and the European Union (EU) has been strongly affected by the global financial crisis (2007-2008) and the European debt crisis. While the 2007-2008 crisis reinvigorated the global role and importance of the IMF as a 'conditional lender', surveillance institution and technical advisor on financial reform, the outbreak of the European debt crisis – and in particular the problems faced by Greece, Ireland, Portugal and Cyprus – fundamentally changed the EU's relationship with the IMF and Europe's status within the IMF. At the same time, the IMF faced strong pressures from European governments to depart from some core principles of traditional IMF approaches to crisis management and the design of programmes. Particularly in the context of the "Troika" (IMF, European Commission and European Central Bank) arrangements towards Greece, differences and divergent approaches between the IMF and the Europeans (European Commission and ECB) emerged, particularly with regards to debt sustainability and restructuring. The lessons learned and repercussions of the recent unconventional and in-depth cooperation between the IMF and the EU (as well as their open disagreements) will need to be carefully followed upon and analysed by national parliaments and the European Parliament to increase transparency in joint EU-IMF activities in the future.

Despite the potentially far-reaching changes in the EU-IMF relationship, the legal contractual basis and the formal representation of EU institutions within the IMF have remained unaltered and limited. The IMF remains a state-centric institution, where EU member states –particularly France, Germany and the United Kingdom– and not the EU wield real influence. Nevertheless, due to close coordination in Washington and in Europe, the EU member states were able to frequently act coherently in the IMF Executive Board and thus to advance coordinated interests within the IMF.

To reflect the changing realities of the world economy and to maintain the IMF's legitimacy as a central institution in global economic governance, the EU should openly promote the implementation of IMF quota and governance reform (initiated in 2010, but so far blocked by US Congress). Within the EU, an open, pragmatic and outcome-oriented debate should be held about the EU's role and representation within the IMF as well as the establishment of core processes and rules of transparency on European decision-making and impact within the IMF. While the realization of the often-cited aim of creating "one single EU seat at the IMF" seems highly unlikely in the short term, alternative coordination mechanisms and stronger institutionalization should be envisaged. Most importantly, however, national parliaments, in close cooperation with the European Parliament, could take the lead in demanding regular and systematic processes of transparency – particularly in relation to IMF-EU joint programmes in the Eurozone and wider European Union.

The Paper proposes the following 10 Recommendations

1. Strengthen institutionalised and systematic involvement of ECON members in IMF-EU discussions related to Article IV and FSAPs related to the euro area.
2. Increase the European Parliament's feed-back opportunities from the European Commission, European Central Bank, Eurogroup and, if possible, EURIMF Presidency on issues related to EU-IMF programmes and activities.
3. Initiate consultations with civil society organisations and wider public on the implications of EU-IMF programmes as well as Article IV consultations and FSAPs. Initiate regular hearings on 'Global Economic Governance' and EU-IMF Relations in the EP.

4. Utilize regular hearings with the ECB President for dialogue on the roles of the IMF and the EU in European and Global Economic Governance.
5. Promote stronger relations and an institutionalised dialogue between the European Parliament and the IMF Office in Brussels/Paris as well as between members of the European Parliament and the IMF staff and member states' Executive Directors.
6. Cooperate closely with European national parliaments on issues related to transparency, accountability and oversight of EU member states' policies within the IMF's Executive Board.
7. Follow the examples of previous invitations of World Bank Executive Directors to the European Parliament by inviting European IMF Executive Directors to EP hearings or workshops.
8. Strengthen the European Parliament's transnational links with the Parliamentary Network on the World Bank and IMF in order to increase inter-parliamentary exchanges and debates on key issues related to the IMF's activities.

Recommendations to member states' parliaments

9. Use all possibilities to continue and increase discussions with national finance ministries and/or central banks and gain information on the EU member states' positions in the IMF and on IMF activities.
10. Strengthen cooperation with the EP on EU-IMF cooperation and EU-IMF joint programmes through regular dialogues between ECON and the relevant parliamentary committees of the EU member states and information sharing on national positions within the IMF.

1. INTRODUCTION

This paper forms part of a series of nine studies on the role of the European Union in international economic fora, prepared by Policy Department A at the request of the Committee on Economic and Monetary Affairs of the European Parliament. It provides factual background information about the International Monetary Fund (IMF) as well as the EU's relations with the IMF (both in terms of the IMF's role in the EU and the EU's role, representation and impact in the IMF). The paper focuses in particular on ongoing research about the impact of IMF-EU relations in the wake of the financial crisis and explores issues of accountability, transparency and options for increased legitimacy. Key conclusions point both towards a strengthened post-crisis role of the IMF in the Eurozone and European affairs and a changing role of the European Union with and within the IMF. The effective change of some European countries from prime creditor to debtor as well as the strong influence of European policy-makers and institutions in the context of the "Troika" programmes not only raise fundamental questions about the future of EU-IMF relations, but also about transparency, legitimacy and accountability of financial assistance programmes as well as global and European global economic governance.

The quality and nature of the relationship between the IMF, EU institutions (such as the European Commission and the European Central Bank) and core member states (such as France and Germany) have significantly changed as a result of the global financial crisis in 2007-2009 and the European debt crisis since 2010. As a result, the influence, impact and activism of the IMF in European financial governance (particularly in the context of the "Troika"), but also the EU's and Europe's "disproportionate influence" (as perceived by some non-EU IMF members – such as in the past most vocally Brazil) in the IMF raise fundamental questions about the future of EU-IMF relations as well as how to govern in a transparent and accountable manner the partnership and its key policies. For the European Parliament (EP), an important opening in terms of promoting dialogue as well as "Checks and balances" on the EU institutions' role in the IMF as well as on the Troika policies has emerged. This should be explored further with concrete follow-ups by the EP's ECON Committee, in close cooperation with European national parliaments.

2. SCOPE, ORGANISATION AND ACTIVITIES OF THE IMF

2.1. Origins, Purpose and Core Scope

The International Monetary Fund (IMF) was founded on 27 December 1945, after the first 29 member states had ratified the so-called 'Articles of Agreement', which have –despite having undergone several changes during the last seven decades- served as the legal foundations of all IMF procedures and activities ever since. [1] The IMF emanated from the so-called 'Bretton Woods' conference of July 1944, which brought together 44 nations in order to institutionalize key measures and international cooperation mechanisms aimed at facilitating international trade and rebuilding the global economy after the Second World War and decades of currency manipulations and protectionism.[2]

The IMF's general six purposes by which the 'Fund shall be guided in all its policies and decisions' are outlined in Article I of the Articles of Agreement:

Box 1: Purpose of the IMF according to Article I (AoA)

Original General Purpose and Guiding Principles of the IMF

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

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[1] For those readers interested in revisiting the Articles of Agreement it should be noted that two "primary reference documents" exist. Most straightforwardly, the IMF has published an up-to-date version of the Articles of Agreements (2011), which also includes changes to the original document. See IMF website on https://www.imf.org/external/pubs/ft/aa/#art1. Those that are interested in a US Treasury copy of the original document (including an ad verbatim transcript of the closing speech of the Bretton Woods Conference delivered by the Conference's president US Secretary of the Treasury Henry Morgenthau) can obtain a copy online at https://fraser.stlouisfed.org/docs/historical/martin/17_07_19440701.pdf.

[2] The mood and purpose of the Bretton Woods conference is well-captured in the closing remarks delivered by the Conference's president Henry Morgenthau – see 'Closing Remarks Address to the Conference', in US Treasury (1945) Articles of Agreement of the International Monetary Fund and International Bank for Development and Reconstruction', pp. III – VI.

While during the first three decades of its existence the IMF focused more narrowly on monitoring fixed exchange rates and on offering emergency lending, the IMF's tasks have considerably evolved during the last 40 years – resulting in amendments of the Articles of Agreement six times between 1945 and 2008.3 These amendments also reflect the IMF's ability to adapt to rapidly changing global economic environment, particularly after the mid-1970s end of the fixed exchange rate system in the wake of the collapse of the 'Bretton Woods monetary system' in March 1973. It was from this moment on that the IMF's main objectives shifted from a narrow scope of exchange rate monitoring to a more encompassing approach to managing global economic stability and an expanded membership of 188 member states. As Martin A. Weiss put it: "Consequently the IMF transformed itself from being an international monetary institution focused almost exclusively on issues of foreign exchange convertibility and stability to being a much broader international financial institution, assuming a broader array of responsibilities and engaging on a wide range of issues including financial and capital markets, financial regulation and reform and sovereign debt resolution".[4]

Further important caesura in the evolution, adaptation and 'lessons learned' of the IMF include the IMF's involvement in the oil crisis of the 1970s, the Latin American debt crisis of the 1980s, financial consequences of the collapse of the Soviet Union in the 1990s as well as currency crises in the 1990s in South America, East Asia as well as most recently the global financial crisis of 2008-2009, the European sovereign debt crisis of 2010-2011 and most recently the IMF-EU response to the Greek debt crisis.

Despite all of these various changes and challenges, the IMF's most important objective and scope remains to contribute to "the broader public good of international financial stability" (Hurd 2011: 71). An important aspect of this function is the aim of preventing the spread or escalation of financial crises. Even though the IMF is best known for its lending policies and economic programmes, it has also performed important surveillance, monitoring and information functions as well as 'technical assistance' (see below).

However, it is particularly in the context of the global recent financial crisis and the IMF's cooperation schemes with the European Union in the context of European sovereign debt crisis and the current 'Troika' efforts towards Greece that important changes have emerged, with particular impact on the EU's role within the IMF and the global financial architecture.

2.2. Changes and developments as a result of the Global and European financial crises

As outlined in more detail in Section 4 below, the global financial crisis of 2008 and the joint EU-IMF response to the Greek debt crisis since 2010 have had important implications

[3] Adopted at the United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 22, 1944. Entered into force December 27, 1945. Amended effective July 28, 1969, by the modifications approved by the Board of Governors in Resolution No. 23–5, adopted May 31, 1968; amended effective April 1, 1978, by the modifications approved by the Board of Governors in Resolution No. 31–4, adopted April 30, 1976; amended effective November 11, 1992, by the modifications approved by the Board of Governors in Resolution No. 45–3, adopted June 28, 1990; amended effective August 10, 2009, by the modifications approved by the Board of Governors in Resolution No. 52–4, adopted September 23, 1997; amended effective February 18, 2011, by the modifications approved by the Board of Governors in Resolution No. 63–3, adopted May 5, 2008; and amended effective March 3, 2011, by the modifications approved by the Board of Governors in Resolution No. 63–2, adopted April 28, 2008.

[4] Martin A. Weiss (2014) International Monetary Fund : Background and Issues for Congress, Washington : Congressional Research Service, p. 3.

both for the IMF as well as the EU's relationship with IMF and European approaches to both European and global economic governance.

Indeed, the effects of the global financial crisis on the IMF's have been both negative and positive in terms of reputation, resources and operational capabilities.[5] The failure of the IMF to properly predict and warn about the crisis in 2008 has been heavily criticised – not only by external observers, but also by the IMF's own Independent Evaluation Office (IEO) in 2011.[6] As the IEO's report stressed in a climate of 'more than a decade of benign economic conditions and low macroeconomic volatility', the IMF "provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak", held on to the belief that "financial markets were fundamentally sound and that large financial institutions could weather any likely problem" and "paid insufficient attention to risks of contagion or spill-overs from a crisis in advanced economies" – particularly the US, but also the Eurozone.[7] Furthermore, the IMF's surveillance instruments and economic warning 'products' (such as the Global Financial Stability Report or the World Economic Outlook) were criticized for not reflecting any of the financial risks in the run-up to the crisis in strong and detailed enough terms. Lastly, the IMF's own staff was criticised for 'group think', 'silo-thinking' as well as bowing to political pressure.[8]

Yet, it also needs to be borne in mind that – chiefly as a result of ten years of relative global financial stability prior to the crisis – member states decided to significantly down-size the IMF's budget and staff in 2006-8. In December 2007, the newly appointed Managing Director Dominique Strauss-Kahn oversaw significant staff cuts as well as the closure of the IMF's Europe office in Brussels and its relocation and merger with the Paris office. Ironically, the outbreak of the financial crisis re-elevated the IMF back from an institution that was seen to have become less relevant, to both a key global player in the aftermath of the 2008 crisis and a strong 'European' player since 2010.

Indeed, while many non-European member states of the IMF criticized the IMF's strong focus on the European sovereign debt crisis (and the IMF's unprecedented volume of financial assistance granted to a single member state), it has also been clear that the IMF's strong involvement in Europe has strengthened and reinforced the IMF's importance as an international financial crisis manager, lender of last resort and 'capacity-builder'. Yet, as the most recent events and 'public disagreements' between the IMF and EU member states within the 'Troika' have highlighted, IMF-EU relations are riddled with complexities, divergent approaches and potential problems in terms of policy impact in the target countries as well as issues of transparency, accountability and good governance.

These aspects, as well as some of the overhauls and reforms of the IMF's 'products' and surveillance instruments since the crisis need to be borne in mind when assessing the EU's current and future relations with the IMF as outlined and assessed in the following sections of this report.

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[5] For a good overview of the impact of the run-up and aftermath of the financial crisis on the IMF, see Independent Evaluation Office of the International Monetary Fund (2011) 'IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-2007', Washington DC: IEO; and Independent Evaluation Office of the International Monetary Fund (2014) 'IMF Response to the Financial and Economic Crisis', Washington DC: IEO.

[6] See Independent Evaluation Office of the International Monetary Fund (2011) 'IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-2007', Washington DC: IEO

[7] Ibid, p. V.

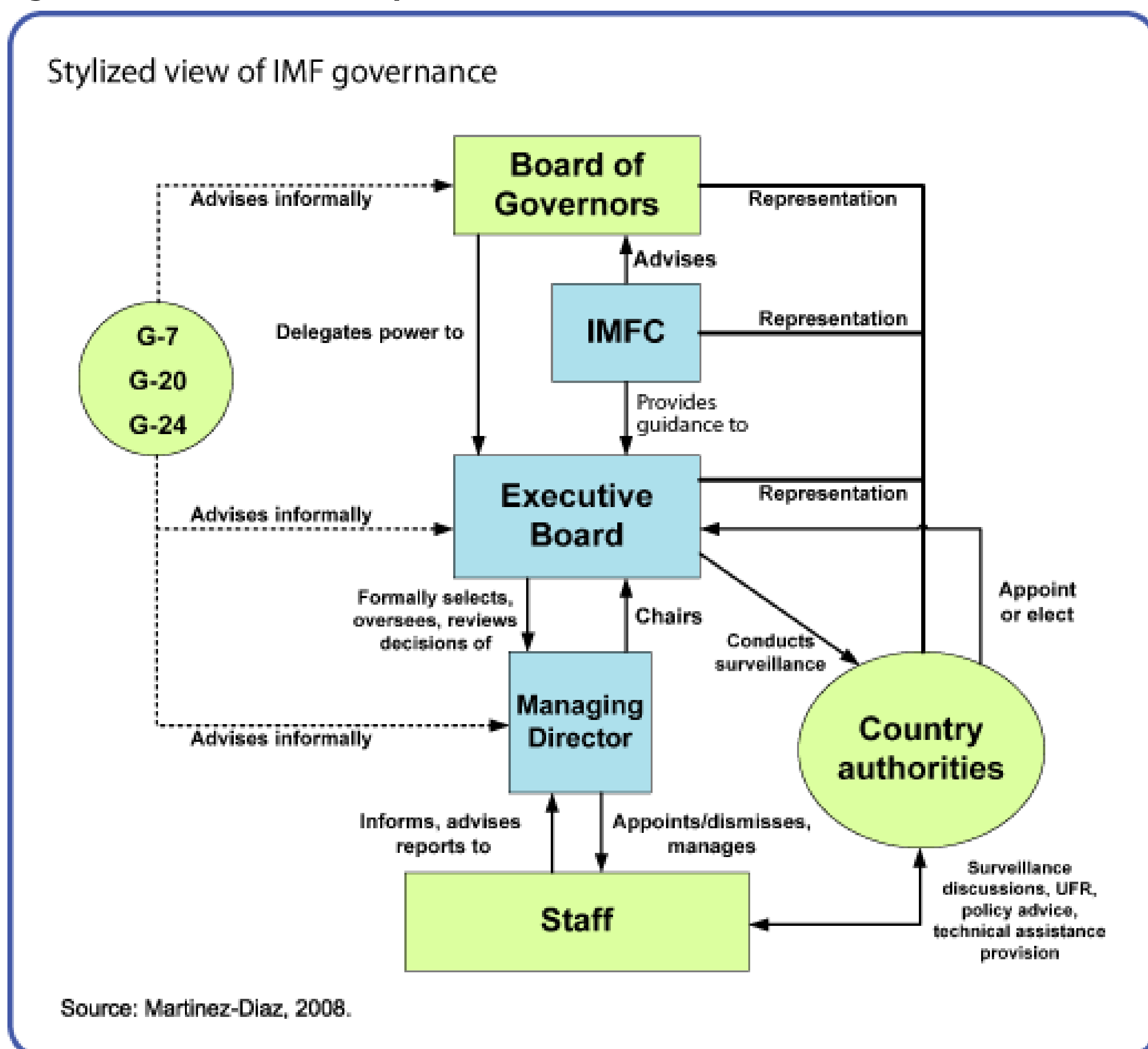
[8] ibid, pp. 20 – 25.

2.3. Governance Structure, Membership and Core Bodies

The IMF's Articles of Agreement (AoA) are both a binding international legal treaty between the IMF's member states and the IMF's founding constitution. Apart from stating the Fund's core purposes (see above), they also outline member states' obligations as well as the organisation's core governance bodies and decision-making organs.

The three most important governance organs described in the AoA (and outlined further in Section 2.3.2 below) are the **Board of Governors**, the **Executive Board** and the **Managing Director** (as well as his/her deputies and the staff of the Fund). As the overview in Figure 1 below outlines, however, the Fund's decision-making and governance operations also need to be viewed in the context of external bodies (such as the G20) as well as internal (ancillary) advisory bodies created since 1945 (such as the International Monetary and Financial Committee created in 1999).

Figure 1: Overview of Key IMF Governance Bodies and Processes.



Source: IMF Factsheet ' How the IMF makes Decisions', 27 March 2015.[9]

[9] Available online at http://www.imf.org/external/np/exr/facts/govern.htm.

2.3.1 Membership, Quotas and Voting Power

The IMF is a strictly intergovernmental and state-centric international organisation. Hence, membership is currently limited to countries only (see Article II of the AoA) and the European Union as such cannot be represented at the IMF as a member. The only exception has been granted to European Central Bank in 1999 (as a result of the introduction of the euro), which has been given the status of 'permanent observer' at the Executive Board and International Monetary and Financial Committee (IMFC) meetings. The European Commission and the EU Council participate in IMFC meetings and make statements (see section 3.1.2 below). Discussions related to a 'single EU seat' at the IMF would require at the IMF a change of Article II of the AoA. This requires the agreement of 60% of the members that hold at least 85% of the votes (see Section 3.1.4 below for a discussion related to the issue of a single EU seat).

Currently, 188 countries are members of the IMF (the most recent accessions included Kosovo in 2009, Tuvalu in 2010 and the newly created state of South Sudan in 2012).[10] All members of the European Union are members of the IMF and together hold 31.06% percent of the IMF's votes.

Table 1: Shares of IMF Votes of eight leading (in terms of vote shares) members and combined EU shares of votes

COUNTRY / GROUP OF COUNTRIES	PERCENT OF FUND VOTES
United States	16.74
Japan	6.23
Germany	5.81
France	4.29
United Kingdom	4.29
China	3.81
Saudi Arabia	2.80
Russian Federation	2.39
Subtotal of 'Top Eight' members	**46.36%**
Combined European Union votes :	**31.06%**

[10] For a full and updated list of members and their date of accession, see https://www.imf.org/external/np/sec/memdir/memdate.htm.

A member country's voting power is largely determined by its **IMF quota** (see Box 2 below). Each IMF member's votes are determined by 'basic votes' plus one additional vote for each Special Drawing Right (see Box 3 below) of 100.000 of quota.[11] As outlined in the table above, a country's share in total voting power varies widely. By far the largest share is held by the United States (nearly 17%), which also guarantees it a de facto veto power over any substantial decisions that require the 85% vote threshold. A quota also determines each IMF member's access rights to loans. For example, the normal rule is that a country can borrow under the Stand-By Arrangement (the most common loan – see section 2.4.2 below) up to 200% of its quota annually and 600% cumulatively. This has been dramatically overstepped by the exceptional access granted to Greece in 2010 when it was allowed to borrow up more than 3000% of its quota (see 2.4.2 below).

The fact that the top five (US, Japan, Germany, France and the United Kingdom) hold 37.36% of the total votes and the remaining EU states hold together 16.67% of the votes (hence the top five and the remaining EU states hold together 54.03% of all votes) has been the subject of many criticisms, particularly by non-Western IMF members. The issue of quota reform (in particular the transfer of quotas from Western to non-Western powers), however, pledged since 2010 remains blocked by the US congress.[12]

Box 2: IMF Quota and its relations to Voting Power

Each member is assigned a quota, based on its 'relative position' in the world economy. A member country's quota determines its maximum financial commitment to the IMF, its voting power, and has a bearing on its access to IMF financing. The IMF applies a special 'quota formula' for determining a member's quota. The formula includes a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). The formula also includes a "'compression factor' that reduces the dispersion in calculated quota shares across members".[13]

A country's quota determines:

- the amount of financial resources the country is obligated to contribute to the IMF (also known as 'subscriptions')

- Access Limit: the amount of financing a member may receive from the Fund

It has been envisaged that the most common decisions (such as approving loans or policy decisions) taken in the Board of Governors or the Executive Board (see below) are taken by a 'simple majority' of 50% of the votes. However, for more fundamental decision a 'supermajority' between 70% (for decisions, such as setting the interest rate on IMF loans) and 85% (for decisions, such as the admission of new members, increases in quotas or the amendment of the Articles of Agreement) of the votes may be required.

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[11] For an overview of the quotas and quota formula, see International Monetary Fund (2015) Factsheet: IMF Quotas, Washington DC: IMF.

[12] For a concise analysis of the issue of IMF quota reform from a US perspective, see Rebecca M. Nelson and Martin A. Weiss (2015) IMF Reforms: Issues for Congress, Washington D.C.: Congressional Research Service.

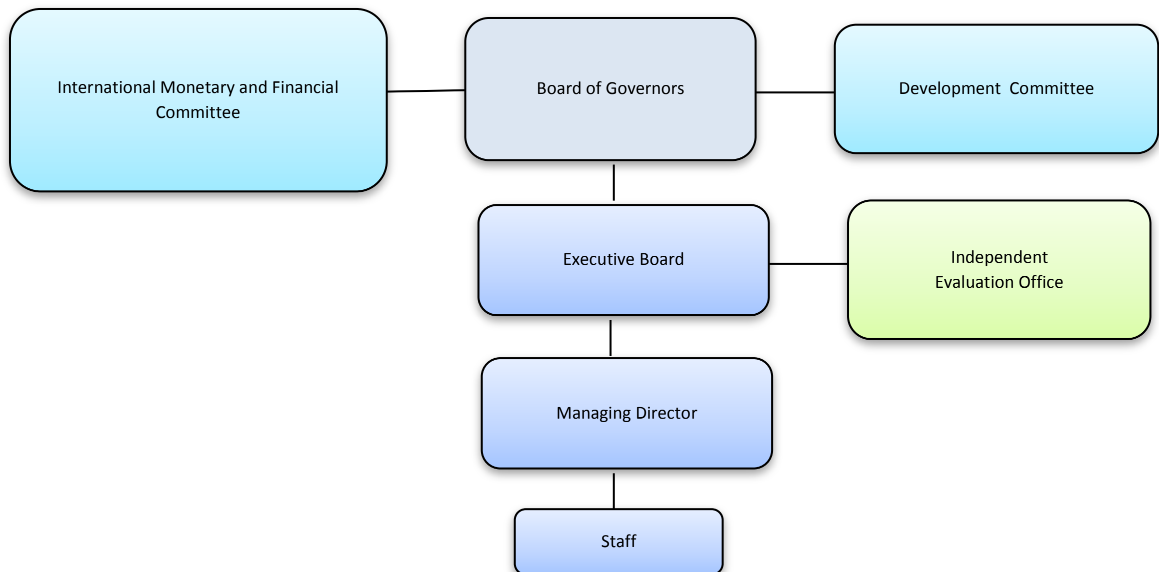
[13] For further information about the quota formula, see International Monetary Fund (2008) Reform of Quota and Voice in the International Monetary Fund—Report of the Executive Board to the Board of Governors, March 28, 2008 – available online at http://www.imf.org/external/np/pp/eng/2008/032108.pdf.

Yet, it is important to note that for 'routine' and operational policy decision-making, the voting rarely takes place. Instead, particularly in the Executive Board, the emphasis is placed on "**decision-making by consensus** and on the maintenance of a collegial and cooperative spirit".[14] This also means that often negotiations depend less on the formal voting power of a member state or coalition states, but rather on the strength of a 'well-prepared and convincing argument'.[15] Recent research on voting patterns and negotiations in the IMF have also pointed to the fact that powerful member states often switch between the IMF's formal rules (as outlined in the AoA) and more informal negotiation tactics, forum-shopping or issue-linkage.[16]

2.3.2 Core IMF Organs and Advisory Committees

The three most important governance bodies in the IMF are the Board of Governors, the Executive Board and the Managing Director (including the 2,400 members of staff of the Fund). In addition, several advisory committees and 'ancillary' bodies, such as the International Monetary and Financial Committee (IMFC) or the Independent Evaluation Office (IEO) have been created over the years.

Figure 2: Core Organs and Ancillary Committees



Source: Own Illustrations.

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[14] Alexander Mountford (2008) ' The Formal Governance Structure of the International Monetary Fund', Background Paper, Washington D.C.: Independent Evaluation Office of the International Monetary Fund, March 2008, p. 19. This has also been confirmed to the authors by a variety of interview partners in Washington.

[15] Interview with Executive Director, Washington DC, 27th July 2015.

[16] See for example Randall W. Stone (2011) Controlling Institutions: International Organizations and the Global Economy, Cambridge: Cambridge University Press. Stone, who was invited in 2007 by the IEO to conduct a study on IMF governance concluded that the US decisively controls the IMF (particularly related to the granting and conditions of loans), not as a result of its formal voting powers, but through informal channels.

The Board of Governors (BoG)

The Board of Governors is the most important body and the 'ultimate political authority' in the Fund.[17] It is composed of one governor, usually the Finance Minister or the President of the central bank, and one alternate per country, who take decisions on:

- Quota increases and general reviews of quotas (85% majority voting)
- Admission of new members (85% majority voting)
- Allocation of SDRs (85% majority voting[18]) and payments (70% majority voting)
- New composition of the Executive Board and number of associate for each counsellor (85% majority voting)
- Compulsory withdrawal of members (85% majority voting)
- Suspension of the Fund's operations beyond one year (up to 2 years; 85% majority voting)
- Amendments to the Articles of Agreement (AoA) (3/5 of members having 85% majority)
- Interpreting the AoA in addition to the Committee on Interpretations (85% majority)
- Liquidation of the Fund (85% majority voting).
- Appoint, nominate and elect Executive Directors (ED)
- Determine EDs remuneration and benefits

The BoG typically meets once a year and undertakes its main duties during the annual meetings, which are held jointly with the World Bank. During these meetings, Governors also meet typically with other informal groupings, such as the G7 or G20.[19] Since the full BoG comprises all 188 member states, governors may also take decisions without a meeting, through mail.

For each meeting, a quorum of a majority of members representing not less than 2/3 of the total voting powers is requested and most of its decisions are taken with an 85% majority rule. Voting power in the Board of Governors is derived from each country's quota (see previous section). The Board of Governors also examines and approves quota increases, allocating **Special Drawing Rights (SDR)** to members, admitting or withdrawing members and amending the Articles of Agreement. Under Article XII, Section 2 (j) of the AoA, the BoG also has the power to create new advisory committees (such as the International Monetary and Financial Committee – IMFC, or the Development Committee, see below). In practice, however, the BoG has delegated many powers to the Executive Board.

The Executive Board of the IMF

The Executive Board is comprised of 24 Executive Directors (EDs), representing all member states. It is involved in daily proceedings of the IMF and formally appoints the Managing Director of the IMF, who Chairs the Board and oversees the IMF Staff[20]. According to Article XII, Section 3 (a), the Executive Board is responsible for "conducting the business of the Fund, for this purpose shall exercise all the powers delegated to it by the Board of

[17] Mountford (2008), op.cit, p. 6.

[18] Except for a decrease in the rates of allocation.

[19] Mountford (2008), op.cit, p. 7.

[20] http://www.imf.org/external/about/govstruct.htm.

Governors".[21] Therefore, "the activities of the Executive Board affect virtually all aspects of the Fund's work".[22]

The Managing Director (acting as Chairwoman of the Board), the Board and the 2,400 staff members therefore are in charge of the day-to-day business of the IMF, including all lending operations.

Box 3: Executive Directors

The eight countries with the largest voting shares - the United States, Japan, Germany, France, the United Kingdom, the Russian Federation, the People's Republic of China and Saudi Arabia - are represented individually on the Executive Board and can appoint (in the case of the top five) their own Executive Director (ED) and in the case of Russia, China and Saudi Arabia elect their own ED, while the remaining 16 Directors are elected by the members who are not entitled to appoint a director. These directors then represent groups of nations – so called 'constituencies'[23]. EDs are entitled to appoint one alternate director each. Elections take place every two years.

Table 2: Overview of selected Executive Directors and constituencies ("Top 8 and Constituencies containing EU member states, 2015")

DIRECTOR	COUNTRY/GROUP OF COUNTRIES	PERCENT OF FUND TOTAL
Mark Sobel	United States	16.74
Mikio Kajikawa	Japan	6.23
Hubert Temmeyer	**Germany**	5.81
Herve Jodon de Villeroche	**France**	4.29
Steve Field	**United Kingdom**	4.29
Jin Zhongxia	China	3.81
Fahad Ibrahim A. Alshathri	Saudi Arabia	2.80
Aleksei V. Mozhin	Russian Federation	2.39
Menno Snel	**Belgium**, Armenia, Bosnia and Herzegovina, **Bulgaria**, **Croatia**, **Cyprus**, Georgia, Israel, **Luxembourg**, former Yugoslav Republic of Macedonia, Moldova,	6.57

[21] See IMF (2008) Articles of Association, Article XII, Section 3a.

[22] Mountford (2008), op. cit, p. 13.

[23] http://www.imf.org/external/np/sec/memdir/eds.aspx.

DIRECTOR	COUNTRY/GROUP OF COUNTRIES	PERCENT OF FUND TOTAL
	Montenegro, **The Netherlands**, **Romania**, Ukraine.	
Fernando Jimenez Latorre	Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, **Spain**, República Bolivariana de Venezuela.	4.90
Carlo Cottarelli	**Italy**, Albania, **Greece**, **Malta**, **Portugal**, San Marino.	4.22
Serge Dupont	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, **Ireland**, Jamaica, St.Kitts and Nevis, St.Lucia, St.Vincent and the Grenadines	3.60
Audun Groenn	**Denmark**, **Estonia**, **Finland**, Iceland, **Latvia**, **Lithuania**, Norway, **Sweden**	3.40
Ibrahim Canakci	**Austria**, Belarus, **Czech Republic**, **Hungary**, Kosovo, **Slovak Republic**, **Slovenia**, Turkey	2.92
Daniel Heller	Azerbaijan, Kazakhstan, Kyrgyz Republic, **Poland**, Serbia, Switzerland, Tajikistan, Turkmenistan	2.79

It is in the Executive Board that all surveillance documents or "policy products" (such as Article IV reviews or the World Economic Outlook) – which have been prepared by IMF staff - are discussed. Similarly, the Executive Board makes the final decisions on any proposed financial transactions, including the use of the Fund's resources for loans (see section 2.4.2 below). In line with the evolution of the Executive Board's practice over time, detailed policy proposals and preparatory negotiations with countries regarding loans is delegated to the management (i.e. the Managing Director) and staff and the Board as a whole rather focuses on the intermittent check through a series of reviews and then on the final approval of loans. In fact, "the matter is only brought formally to the Board's attention once Management is satisfied that the proposed program and transactions are consistent with the Fund's policies and are likely to receive Board approval because they are consistent

with these policies".[24] In practice, this means that the Executive Board receives formal proposals by the Managing Director and only in the rarest cases does the Board disagree with the judgement and proposal of the Managing Director.[25]

Procedurally, many of the "policy products" and loan decisions presented to the EB will be brief, outlining some of the key findings of the staff and country teams and will often be accompanied by a pre-written statement by the relevant Executive Director appointed to oversee the discussions of the specific target country. These statements (so-called "grays") are circulated before the meeting and the actual discussions in the EB might therefore not occupy too much time.[26] An IEO Report on IMF governance has found that the EB issues on average 4,000 grays per year.[27] For the EU's role and influence in the EB, the formulation of 'common grays' (joined statements related to euro area issues prepared by the EURIMF presidency) are an important instrument (see Section 3 below) for making the EU view heard at the IMF. At the end of discussions, the Chair prepares with the Secretary so-called "Summing Ups" (SU), which summarize the concluding views and decisions of the Board, in particular for Article IV and most policy discussions.[28] These documents also serve as the basis for the public statement releases or press releases.

For Executive Board meetings, a quorum of half of the Directors, which represents at least half of total voting shares, is required. Most of its important decisions are taken with a 70% majority of total voting share, but when it is not specified in the AoA, decisions are taken with a 50% majority. Similarly to the decision-making procedures in the BoG, the Executive Board also functions under a cooperative decisions-making framework where decisions are normally taken by consensus and not by formal voting. During a meeting the chairman (Managing Director) ascertains the "sense of the meeting", the position that would be supported by a large majority in lieu of a formal vote with discussions continuing until a large majority emerges. Any Executive Director can, however, request a formal voting.

Managing Director, IMF Staff and Regional Offices

The role and functions of the Managing Director (MD) are not extensively covered in the Articles of Association. Instead, Article XII Section 4 (b) of the AoA simply states that "The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund." In practice, however, the MD wields strong influence and is often seen as the 'public face' of the organization. Particularly in meetings with other fora and organizations, such as the G7 or G20 as well as more recently in the context of the IMF, European Commission and European Central Bank "troika", the MD represents the IMF, but also provides a 'global perspective on the world economy'.[29]

So far, the IMF's MD has always been a European. Conversely, in the context of ongoing discussions on the reform of the IMF and the increasing influence of emerging powers,

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[24] Mountford, op. cit., p. 18.

[25] Leo Van Houten (2002) Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability, Washington D.C., IMF, p. 25.

[26] Mountford (2008), op.cit, p. 18.

[27] Independent Evaluation Office of the IMF (2008) 'Governance of the IMF: An Evaluation', Washington: IMF p. 13.

[28] ibid, p. 14.

[29] ibid, p. 21

Christine Lagarde appointed in July 2011 the Fund's first Chinese Deputy Managing Director.

Finally, the MD is responsible for overseeing, appointing and dismissing the Fund's 2,400 members of staff. Half of the staff are economists and the overwhelming majority is based at the IMF headquarters in Washington D.C.[30] In addition, the Fund also maintains small groups of staff at three regional offices (Europe Office in Paris/Brussels, the Asia and Pacific Office in Tokyo and the Central and Eastern Europe Office in Warsaw). Of particular interest from the EU's perspective is the **IMF Europe office in Brussels/Paris**. While the Brussels branch was closed down and merged with the Paris office in 2008 prior to the financial crisis, it was re-opened in March 2013 as a result of intensifying IMF-EU cooperation. Currently led by the experienced US economist Jeffrey Franks (who had been involved in the joint EU-IMF programmes in Romania and Hungary), the IMF Brussels office could become an important (but so far from the European Parliament underutilized) point of contact for exchange of information and reinforced cooperation.

Lastly, the IMF maintains Regional Technical Assistance Centres for capacity-building (particularly active in Africa) and country representations.

Quality and Independence of Staff

Interviews with EU officials in Washington who frequently interact and deal with IMF staff stress the high level of economic expertise and competence of IMF staff. Furthermore, senior officials in the IMF stress that as a result of the financial crisis and internal reform efforts, progress has been made in terms of overcoming the culture of group-think, increasing exchanges of information between departments (in order to connect better the dots) and a sense of 'speaking truth to power' when it comes to making arguments about economic policies that might contradict member states' political stances.[31] Yet, these generalisations need to be viewed with caution. While political pressures might indeed be lighter on IMF staff than European Commission staff when it comes to the Greek debt crisis, political pressure might be strong on IMF staff when related to national interests of the US administration.[32] When it comes to the expertise and knowledge of the Executive Directors in the EB, an IEO study has found that many senior staff members and EDs in particular lack knowledge of financial sector issues.[33]

Finally, in the context of IMF involvement in the European debt crisis, IMF officials stressed in interviews with the authors that EU institutions and EU member states in particular insisted on IMF involvement, due to the IMF staff's expertise in crisis management (see also section 4 below).

[30] See International Monetary Fund's updated info on staff - https://www.imf.org/external/about/staff.htm.

[31] Interviews with senior IMF official, Brussels and Washington – July 2015.

[32] See Randall W. Stone, op. cit.

[33] Independent Evaluation Office of the IMF (2008) 'Governance of the IMF: An Evaluation' p. 14.

The International Monetary and Financial Committee (IMFC)

The IMFC was created by the Board of Governors in 1999. It advises and reports to the Board of Governors on the financial system and considers amendments of the Articles of Agreements. The Committee is a key instrument for providing direction to the Fund and has "in practice become the main source of ministerial-level advice, guidance and feedback to the Executive Board on all the main issues facing the Fund."[34] It consists of 24 members (governors from the 188 member countries) with the same country distribution as the Executive Board. Since it is composed of governors (i.e. either ministers of finance or central bank governors) the Committee's influence and stature is rather strong. The chairman of the IMFC has in the past normally been a country's acting Finance Minister and served for the duration of his/her national term of office. In February 2015, however, Agustín Carstens, Governor of Banco de México, was elected as a Chairman of the Committee for a term of three years. Mr. Carstens succeeded Mr. Tharman Shanmugaratnam, Singapore's Minister for Finance.[35]

The IMFC generally meets twice a year (in spring and before the Annual meetings of the Board of Governors). According to the BOG's Resolution of 1999, which established the IMFC, its mandate includes:[36]

- supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries.
- considering proposals by the executive directors to amend Articles of Agreement.
- dealing with sudden disturbances that might threaten the international monetary system.

Table 3: Current Members of the IMFC

Members of the IMF (2015)		
Mexico (Chair)	France	Russia
Algeria	Gabon	Saudi Arabia
Argentina	Germany	Singapore
Autralia	India	Spain
Belgium	Italy	Switzerland
Brazil	Japan	Turkey
Canada	Nigeria	United Arab Emirate
China	Norway	United Kingdom
		United States

Source: IMF (2015) Factsheet : A Guide to Committees, Groups and Clubs.

[34] Mountford (2008), op.cit, p. 8.

[35] See 'IMF selects Augustin Carstens as New Chairman', Press Release N0. 15/65, February 2015.

[36] This section draws on Mountford (2008), p. 8.

The IMFC receives and discusses reports from the Managing Director and Executive Board and in turn reports to the Board of Governors on major issues related to global economic governance. The IMFC's chair normally presents an end-of-meeting communiqué, which is often seen as important guidance for the Fund's work programme in the following months.[37] The IMFC is an advisory body and is not seen as a venue where substantial negotiations take place. Yet, particularly its breakfast meetings are seen by former and current participants as important high-level meeting opportunities for frank exchanges.[38]

Some criticisms have been levelled at the IMFC because of its 'gray status' when it comes to advice to the Board of Governors and the lack of transparency of the election of IMFC chairs, which wield considerable influence in IMFC deliberations.[39]

From an EU perspective, the President of the ECB and the European Commissioner for Economic and Financial Affairs, Taxation and Customs attend the meetings of the International Monetary and Financial Committee (IMFC) twice a year as observers in the context of the IMF's Spring and Annual Meetings.[40] Both EU representatives are allowed to make statements at these meetings, commenting on economic developments related to the euro area. The EU Council rotating presidency also makes a statement.

The Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries (Development Committee)

The Development Committee was established by the Board of Governors in 1974 in order to advise the IMF and the World Bank on resources required to promote development in emerging economies.[41] The Development Committee includes governors of the IMF and World Bank, but in recent years the committee has been seen as having become mostly a "World Bank" committee rather than a focused IMF body.

The Independent Evaluation Office (IEO)

Finally, the IMF's Independent Evaluation Office (IEO) was created in 2001 in order to provide "objective and independent evaluations on issues, and on the basis of criteria, of relevance to the mandate of the Fund. It is intended to serve as a means to enhance the learning culture within the Fund, strengthen the Fund's external credibility, and support the Executive Board's institutional governance and oversight responsibilities".[42] The idea of an independent evaluation office was first floated in the late 1980s. In the early 1990s, the concrete idea was in particular favoured by the Executive Directors of Brazil and the United Kingdom and finally implemented by the new incoming Managing Director Horst Koehler.[43]

A recent external and independent evaluation of the IEO itself has concluded that the IEO has significantly contributed to a 'learning culture' within the IMF and has promoted greater transparency, accountability and better governance across the Fund. The authors stress

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[37] Independent Evaluation Office of the International Monetary Fund (2008) 'Governance of the IMF: An Evaluation' p. 10.

[38] ibid, p. 10.

[39] ibid, pp. 9 – 10.

[40] http://www.imf.org/External/spring/2015/imfc/statement/eng/EC.pdf.

[41] http://www.imf.org/external/np/exr/facts/groups.htm#IC.

[42] See 'Terms of Reference' of the Independent Evaluation Office, available online at http://www.ieo-imf.org/ieo/pages/TermsofReference.aspx.

[43] See David Peretz (2012) A brief History of the IEO, in Ruben Lamdany and Hali J. Edison (eds.) Independent Evaluation at the IMF : The First Decade, Washington D.C. : IEO, p. 55.

that "our consultations show that it is widely considered to be the most independent of the evaluation offices of the international financial institutions".[44] In this sense, the IEO might serve as an important institutional inspiration for international organizations involved in global governance, particularly in the area of transparency and accountability (see Section 6 below). Yet, the report also pointed out that there are still substantial problems in the follow-up process of IEO reports and a "conflict of interest' between IMF management and the IEO, often leading to the 'watering down' of IEO recommendations.[45] Nevertheless, the IEO serves as an important point of critical information and feed-back on core processes, output and impact of the IMF's policies and products and has been viewed as an important step in increasing the Fund's transparency, accountability and credibility.

2.4. The IMF's Core Activities and "Products"

The IMF's most fundamental and most important activities can be summarized as providing advice to the Fund's members on their economic policies in order to guarantee the overall aim of global financial stability. Apart from being a lender of last resort as well as information and technical assistance provider, the Fund "operates as a system of peer pressure and persuasion, under which the member countries are encouraged to pursue sound economic policies."[46]

Thus, the core activities of the IMF can be divided into three main aspects:

- **Surveillance and provision of information**: surveillance and monitoring of financial and monetary conditions in IMF member countries, regions (including monetary unions) and the global economy.
- **Financial Assistance (Lending):** financial assistance to countries in order to address and overcome major balance-of-payments problems.
- **Technical assistance:** advisory services and 'capacity-building' used to help countries to develop more effective institutions, legal frameworks and policies to promote economic stability.[47]

2.4.1 Surveillance and Provision of Information

One of the most important, continuous activities and operations of the IMF is related to 'surveillance' and monitoring of key developments and indicators both in member states (bilateral surveillance) as well as spill-over aspects between countries, regions and within monetary unions (multilateral surveillance). According to Section 3 of Article IV of the AoA, the Fund "shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations".[48] While initially, the IMF's surveillance activities focused in particular on "firm surveillance over the exchange rate policies of members", the monitoring and surveillance activities developed

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[44] See José Antonio Ocampo, Stephen Pickford, and Cyrus Rustomjee (2013) External Evaluation of the Independent Evaluation Office: Report by the Panel convened by the IMF Executive Board, January 2013, p. 3 - available online at http://www.ieo-imf.org/ieo/files/evaluationofieo/IEO_Second_External_Evaluation.pdf.

[45] ibid, p. 4.

[46] (2008) ' The Formal Governance Structure of the International Monetary Fund', Background Paper, Washington D.C.: Independent Evaluation Office of the International Monetary Fund, March 2008, p. 5.

[47] http://www.imf.org/external/np/exr/facts/tech.htm.

[48] IMF Articles of Agreement, Article IV, online version available at https://www.imf.org/external/pubs/ft/aa/#art4.

into far-reaching assessments of economic conditions and trends in the global economy as well as of member countries' economic policies and practices.[49]

Given its near-universal membership and the Fund's "mechanisms of regular and mandatory consultations with all members"[50], the IMF is in a particular strong position to issue regular reviews of potential risks and disruptions of the international monetary and economic system. The IMF's surveillance system is succinctly summarized by the IMF's Executive Board:

> "The IMF fulfils this [surveillance] mandate through bilateral, regional, and multilateral surveillance. In accordance with Article IV of its Articles of Agreement, the main instrument of bilateral surveillance is consultations, normally held every year, with each of the Fund's members. These consultations are complemented with regular analysis of economic and financial data provided by members and, as needed, informal contacts between the Fund and national authorities. At the regional level, the IMF holds regular discussions with the economic institutions of currency unions and participates in the activities of regional bodies." [51]

The IMF's key findings are summarized in a variety of 'flagship' publications, ranging from press releases on particular countries' (or euro area) **'Article IV consultations'** (see below) to publications on regional and global economic trends and risks, such as the **World Economic Outlook (WEO)**, the **Global Financial Stability Report (GFSR)** and – in the aftermath of the global financial crisis – the **'Fiscal Monitor'**. In addition, the IMF has published since 2003 **regional economic reports** that discuss the economic developments and prospects for countries in various regions.[52]

In 1999, the IMF introduced as an important input into the Article IV procedures an additional program that allowed for a "comprehensive and in-depth assessment of a country's financial sector".[53] This so-called '**Financial Sector Assessment Program' (FSAP)** is carried out in close cooperation with the World Bank and "analyzes the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises".[54] As a direct lesson from the 2008 financial crisis, the IMF launched in 2011 so-called 'spill over reports', which analyze and discuss spill over effects from member's policies on domestic and global stability. Finally, twice a year the IMF publication **"Global Policy Agenda**" systematically integrates and summarizes the main findings of all aforementioned reports in order to minimize the 'silo-thinking' that contributed to the lack of 'connecting the dots' between different risk indicators prior to the 2008 crisis.

Of key interest in the context of present study on EU's role within the IMF is the extent to which different EU institutions or member states can have an input on the IMF's core surveillance processes and products, in particular related to euro area reports. In March

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[49] Martin A. Weiss (2014) International Monetary Fund : Background and Issues for Congress, Washington : Congressional Research Service, p. 10.

[50] Biagio Bossone (2008) 'IMF Surveillance: A Case Study on IMF Governance', Washington DC: Independent Evaluation Office, May 2008, p. 10.

[51] International Monetary Fund (2004) Public Information Notice (PIN) 04/95, 24 August 2004.

[52] See the IMF's web presence related to these reports at http://www.imf.org/external/pubs/ft/reo/reorepts.aspx.

[53] international Monetary Fund (2014) The Financial Sector Assessment Program (FSAP), available online at http://www.imf.org/external/np/fsap/fssa.aspx.

[54] idem.

2013, the IMF conducted for the first time an FSAP of the euro area.[55] In the context of Article IV consultations, FSAPs and the World Economic Outlook, a coordinated position and input form a variety of European stakeholders (including the European Parliament) is desirable.

Article IV Consultations

At the heart of this surveillance regime lie the so-called 'Article IV consultations'. These are annual country visits by IMF teams, during which IMF staff exchange views with government and central bank officials about domestic and global risks to financial stability. "Discussions mainly focus on exchange rate, monetary, fiscal, and financial policies, as well as macro-critical structural reforms".56 Furthermore, IMF staff also typically consults other stakeholders during their mission, such as civil society organizations, business and labour unions as well as parliamentarians and think tanks.[57]

Upon completion of the country visit, the IMF team reports its findings to IMF management and then presents them to the Fund's Executive Board for discussion. A summary of the Board's conclusions is transmitted to the country's government and a 'summary note' is – in the overwhelming majority of cases - published. The Fund carries out approximately 150 Article IV consultations each year – with each discussed in the Executive Board.[58] In this way, the collective expertise of the Fund's country teams and Executive Board members provide important feed-back to a country's economic policies. In this sense, the IMF's 'product' of surveillance contributes to setting core standards when it comes to recommendations about prudent macroeconomic policies, fiscal policies as well as structural reforms.

While Article IV recommendations are not binding or strictly enforceable by the IMF, peer pressure as well as public 'naming and shaming' mechanisms come into play.

The Article IV consultations have come under scrutiny and criticism in the aftermath of the 2008 financial crisis as well as the onset of the euro crisis. Particularly the fact that the mechanisms did not provide strong and early enough warnings about global financial risks in the run-up to the crisis has undermined the IMF's overall credibility as a 'trusted advisor'.[59] Furthermore, the Article IV consultations were seen as too isolated and 'country-specific', thus missing out on the assessment and prediction of 'spill over effects' of major economies on their partner economies - as is the case in any major financial crisis that spills beyond a limited region. As a result, the IMF introduced in 2011 the first 'consolidated spill-over report', which assesses interconnections in the global economy and in particular potential spill-overs from the five most "systemic" economies (i.e. those with the potential

[55] See 'IMF Assessment on Financial Stability in Europe', available at http://www.imf.org/external/np/sec/pr/2013/pr1379.htm.

[56] International Monetary Fund (2015) Factsheet Surveillance, Washington D.C., International Monetary Fund, April 2015, p.1.

[57] Interview with senior IMF official, Brussels, July 2015.

[58] Alexander Mountford (2008) 'The Formal Governance Structure of the International Monetary Fund', Background Paper, Washington D.C.: Independent Evaluation Office of the International Monetary Fund, March 2008, p. 16.

[59] See Independent Evaluation Office of the International Monetary Fund (2011) 'IMF Performance in the Run-up to the Financial and Economic Crisis: IMF Surveillance in 2004-2007', Washington DC: IEO.

to disrupt the entire global financial system). This so-called 'S5' includes China, the euro area, Japan, the United Kingdom and the United States.[60]

In the case of the EU, the first IMF reports on 'selected issues' of the euro area were released in 2001. But it was not until 2008 that the IMF began more comprehensive 'Article IV consultations' with the euro area and a more intensive dialogue with EU institutions.61 Since the EU is not a member of the IMF, the European Union as a whole does not directly receive an Article IV consultation in its own. However, the euro area receives an Article IV consultation which complements the individual national Article IV consultations of the 19 EU member states that have adopted the Euro.[62]

Interviews with senior EU and IMF officials in Brussels point towards the fact that cooperation between the IMF country team and Commission as well as ECB officials is strong and exchanges take place in spirit of inter-organizational collegiality during Article IV consultations for the euro area. From the European Commission's side, senior officials from DG ECFIN and FISMA are closely involved in consultations. Furthermore, the IMF country team visits London (which is the seat of the European Banking Authority) and Frankfurt for financial aspects and consults with the Eurogroup, including a visit to the Eurogroup's president, currently the Dutch Finance Minister.[63] Consultations are also deliberately sought with civil society and parliamentarians, **providing a strong opening for input from the European Parliament,** which should be explored more extensively in future rounds of consultations. While the European Commission representative in Washington seeks to provide input to EURIMF on Article IV consultations related to the eurozone, it could also be envisaged that the **European Parliament Liaison Office in Washington** could be used more strategically for conveying the EP's input into discussions.

Both EU and IMF officials stress that most officials from both organizations take the discussions and consultations very seriously. The regular practice of Article IV consultations has also contributed to an increased awareness of the specific nature of risks and vulnerabilities within a monetary union and has contributed to a better, mutual understanding between the EU and IMF.[64]Yet, it was also made clear that the Article IV consultations often lack a systematic and thorough follow-up and implementation phase by the reviewed country or – in the case of the euro area - the euro members and EU institutions.

In terms of transparency, it is noteworthy that Article IV reports have been made available to the public since 1999 in order to increase accountability and openness. In order to increase transparency and accountability towards the European public and EU institutions with regards to EU input to Article IV consultations, senior European Commission officials have signalled their readiness to make themselves available for appearing in front of the European Parliament and to foster a more structured dialogue.

Yet, the current situation could certainly be improved – coordination between the Eurogroup, the ECB, Commission and Parliament remains ad hoc with sketchy flows of information. Particularly the follow-up process and the implementation phase after the

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[60] For the first Consolidated Spillover Report, see http://www.imf.org/external/pubs/ft/survey/so/2011/CAR090211B.htm.

[61] Interview with senior European Commission official, March 2015.

[62] See European Central Bank (2015) 'IMF Surveillance of the Euro Area and its Member Countries', ECB Economic Bulletin Issue 4, 2015, p. 80.

[63] Interview with senior IMF official, Brussels, July 2015.

[64] Senior official responsible for G20, G-groups and IMF at European Commission, 4 March 2015.

publication of each Article IV report could provide an opportunity for broader discussions within the European Parliament, including public exchanges between the European institutions.

The International Labour Organization in 2013 carried out a review on the actual content and policy implications of a sample of 67 Article IV reports issued by the IMF to European countries between the years of 2008 and 2011. The review concluded that, despite public statements to the contrary, IMF policies still entail recommendations that lead to economic instability or curtail growth, such as recommendations of reducing public spending – regardless of whether it's appropriate to the country - and a focus on policy issues that reduces social protection.[65] This seems to be at odds with recent reform initiatives and increasing statements by IMF staff themselves about some of the mistakes made in the aftermath of the financial crisis, such as an underestimation of fiscal multipliers in the context of austerity.[66] The systematic underestimation of the effect of so-called 'fiscal multipliers' (i.e. the impact of reduction of government spending on the economy) casts a significant shadow of doubt over the appropriateness of government (and in 2010, IMF-backed) austerity measures in Europe. It is precisely these debates that should be taken further by an EP-led debate and assessment.

Global Surveillance and the Three IMF 'Multilateral Flagship Reports": World Economic Outlook (WEO), Global Financial Stability Report and Fiscal Monitor

Twice a year the IMF's Executive Board publishes three major reports (commonly referred to as the IMF's three 'flagship reports') that assess global economic trends, developments and risks. Indeed, before the crisis the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR) were the two main publications used by the IMF for its global risk assessment.[67] While both publications had been part of the IMF's publication repository since the early 1990s and 2000s respectively, the Fiscal Monitor was added in 2009 as a direct response to the lessons from the Financial Crisis. The WEO "seeks to take a comprehensive approach to risks, with the FGSR covering risks to global financial stability".[68] The Fiscal Monitor draws on the same database used for the WEO and GFSR, in order to survey and analyse "the latest public finance developments, update fiscal implications of the crisis and medium-term fiscal projections, and assess policies to put public finances on a sustainable footing".[69]

All three flagship publications are first discussed at **the IMF's Executive Board and published before IMFC meetings**.[70] Hence, when European issues are touched upon, the EURIMF presidency seeks to exert some influence on the IMF's discussions and comments in the discussions. Since the emergence of the European sovereign debt crisis, **WEO outlooks have also strongly focused on the impact of developments within the**

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65 See Mark Weisbrot and Helene Jorgensen (2013) Macroeconomic Policy advice and the Article IV consultations: Comparative Overview of European Union Member States, ILO Research Paper NO. 7, August 2013, Geneva: ILO, p. 2.

66 See Oliver Blanchard and Daniel Leigh (2013) Growth Forecast Errors and Fiscal Multipliers, IMF Working Paper, January 2013, Washington D.C.: IMF.

67 David J. Robinson (2014) The IMF Response to the Global Crisis: Assessing Risks and Vulnerabilities in IMF Surveillance, IEO Background Paper, Washington D.C. Independent Evaluation Office, October 2014, p. 1.

68 Ibid, p. 5.

69 See International Monetary Fund information site on the Fiscal Monitor, available at http://www.imf.org/external/ns/cs.aspx?id=262.

70 David J. Robinson, op. cit., p. 6.

European Union on global economic growth.[71] During the preparations of WEO discussions with IMF staff, the European Commission and the EURIMF chairman in Washington seek to foster coordination with EU member states, even if this is not always possible in a friction-free manner, particularly when encountered by strong views of major EU member states.[72]

In recent years, criticism has been levelled against the IMF's 'multilateral flagship reports' that questioned the effectiveness and usefulness in flagging up global risks, particularly in the context of the IMF's failure to issue clear warnings in the run-up to the Financial Crisis of 2008.[73] A 2011 evaluation concluded that "the IMF provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak. The banner message was one of continued optimism after more than a decade of benign economic conditions and low macroeconomic volatility".[74] While some GFSR reports picked up on some risks prior to the crisis[75], they were nevertheless "presented in general terms, without an assessment of the scale of the problems, and were undermined by the accompanying sanguine overall outlook".[76] Furthermore, the World Economic Outlook did not repeat or pick up on these warnings, but continued to stress as late as April 2007 that "world growth will continue to be strong and opined that global economic risks had declined since September 2006". [77] In fact, in many instances the WEO adopted a far more optimistic stance than the GFSR, highlighting key problems in terms of lack of integration and coordination between both publications. Both publications only adopted a "more cautionary tone" after the eruption of the first instances of global turmoil in 2007.[78]

As a result, a key post-crisis reform was aimed at increasing the coherence between the flagship publications by increasing coordination meetings of IMF management during the production process (as opposed to merely discussing the finalized publications) and by the introduction of a "Flagship Compact" which sets out clear guiding principles for each of the three flagship publications (see Box 3 below). As mentioned above, with the introduction of

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[71] See Mark Weisbrot and Helene Jorgensen (2013) Macroeconomic Policy advice and the Article IV consultations: Comparative Overview of European Union Member States, ILO Research Paper NO. 7, August 2013, Geneva: ILO, p. 1.

[72] Interviews, senior officials DG FISMA, March 2015.

[73] See for example, Independent Evaluation Office (2011) IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance 2004 – 2007, Washington D.C.: IEO, p. 1.

[74] idem.

[75] For example, the April 2006 GFSR report warned about financial spillovers from advanced economies as well as risks related to the US housing market, yet these warning were not incorporated in the IMF's main public statements. See GFSR April 2006, available online at https://www.imf.org/External/Pubs/FT/GFSR/2006/02/pdf/chap1.pdf.

[76] As the IEO evaluation report stressed: "at different times during the evaluation period, the GFSR identified many of the risks that subsequently materialized, but not in an effective manner. Warnings about these risks were seldom incorporated in the IMF's banner messages. They were given in general terms, without an assessment of the scale of the problems or the severity of their potential impact, and were undermined by the accompanying sanguine overall outlook. To a large extent this was due to the belief that, thanks to the presumed ability of financial innovations to remove risks off banks' balance sheets, large financial institutions were in a strong position, and thereby, financial markets in advanced countries were fundamentally sound", Independent Evaluation Office (2011), op.cit, p. 7.

[77] ibid, p. 9.

[78] ibid, p. 7.

the Managing Director's "Global Policy Agenda" (GPA) in October 2012, the central messages of the three publications are summarized and presented at IMFC meetings.[79]

Box 4: Post-crisis Clarification of the Three Flagship Publications under the Compact[80]

"Under the Compact

-the ***WEO*** is expected to assess global macroeconomic developments, integrating the financial policies and fiscal conditions relevant for such analysis in a general equilibrium framework.

-**the *GFSR*** is expected to assess the state of global financial stability, and how it is affected by the macroeconomic environment; systemically important balance sheets relevant for financial stability; and multilateral advice about financial policies.

-**the *Fiscal Monitor*** is expected to assess short and longer-term fiscal developments, focusing in particular on fiscal sustainability risk, tax and expenditure developments, fiscal frameworks, fiscal institutions demographics and macroeconomic trends. If a flagship touches on issues outside its primary area of responsibility, it is expected to follow the lead and—particularly on policy advice—the language provided by the lead flagship for that issue."

For the European institutions including the European Parliament (in coordination with the European Commission, the Eurogroup and the European Central Bank) it would be advisable to strengthen the information flow and dialogue between EU assessments of European and global financial risks and the IMF's GPA – not only in the run-up to the flagship publications, but also after their disseminations. In contrast to the WEO and GFSR, the Fiscal Monitor has been –since its introduction six years ago- far more explicit and clear about specific fiscal risks and vulnerabilities in both major emerging market economies, but –as a most important lesson after the financial crisis – also in advanced economies. The Fiscal Monitor is prepared twice a year (in April and October) by the IMF's Fiscal Affairs Department.

Further early warning exercises and integrative reporting were introduced in 2009 (in cooperation with the G20) and 2011 respectively, but will be discussed in the separate section '*Post-Crisis Integrated Surveillance and IMF-G20 Cooperation*' below.

Financial Sector Assessment Program (FSAP)

One major lesson from the Financial Crisis has been that the health of a country's financial sector is of prime importance for global financial and economic stability. While the IMF and World Bank have conducted regular Financial Sector Assessment Programs (FSAPs) since 1999, FSAPs have gained renewed relevance in the recent post-crisis years. While assessments of emerging and developing economies are carried out jointly by the IMF and World Bank, the IMF also conducts its own FASPs for advanced economies.

[79] For the latest GPA, see International Monetary Fund (2015) The Managing Director's Global Policy Agenda: Confront Global Challenges Together, Washington D.C.: International Monetary Fund, April 2015, available online at https://www.imf.org/external/np/pp/eng/2015/041315.pdf.

FSAPs provide in depth examinations of countries' financial sectors and form an important complementary input to the Article IV consultations. A significant recent reform included the more appropriate delineation of responsibilities between the IMF and World Bank along the line of their comparative advantages in expertise and institutional focus: the IMF carries out stability assessment and the World Bank focuses on the development assessments.[81]

1. The IMF's stability assessment covers:
    a. Impact of the main risks to macro-financial stability in the near-term
    b. The country's financial stability policy framework
    c. And the authorities' capacities to manage and resolve a financial crisis

2. The development assessment is responsibility of the World Bank and it includes:
    a. Assessment of financial sector infrastructure development needs
    b. Financial sector oversight
    c. Public policies affecting financial sector activity
    d. The impact of an underdeveloped financial sector on financial stability
    e. And long-term financial sector reforms.

As a result of the IMF's post-crisis adaptations, FSAPs have undergone three important changes:

1. Initiatives are being launched to include lessons from the recent crisis, improving stress testing tools, crisis preparedness and crisis management.
2. The program is now more flexible
3. The FSAPs are now better integrated with the Fund's overall surveillance role.[82]

FSAPs are normally concluded with the preparation of a so-called Financial System Stability Assessment (FSSA). This document feeds directly into IMF surveillance discussions under Article IV and is typically discussed by the Executive Board in conjunction with the country's (or euro area's) Article IV staff report.[83] As a lesson from the financial crisis, FASPs have become mandatory for 29 countries with "large or highly interconnected financial sectors".[84]

The first ever FSAP of the euro area was conducted in March 2013 and focused in particular on the EU's post-crisis banking system.[85] The European Central Bank has welcomed the IMF's reinforcement of FSAPs and the fact that FSSAs of EU member states are systematically informed by the regional developments within the euro area.[86] Indeed, an increased awareness of the interconnections and linkages between financial aspects at the national level and the Eurozone area as a whole has been one of the most important

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[81] See International Monetary Fund (2014) 'Review of the Financial Sector Assessment Program: From Adaptation to the Post-Crisis Era', IMF Policy Paper, Washington D.C.: IMF.

[82] http://www.imf.org/external/np/fsap/faq/.

[83] http://www.imf.org/external/np/exr/facts/fsap.htm.

[84] See Malcolm D. Knight and Guillermo Opitz (2014) 'Multilateral Surveillance: Ensuring a Focus on Key Risks To Global Stability',

[85] International Monetary Fund (2013) 'European Union: Publication of Financial Sector Assessment Program Documentation—Technical Note on Progress with Bank Restructuring and Resolution in Europe', available online at http://www.imf.org/external/pubs/ft/scr/2013/cr1367.pdf.

[86] European Central Bank (2015) 'IMF Surveillance of the Euro Area and its Member Countries', ECB Economic Bulletin Issue 4, 2015, p. 81.

improvements in the IMF's FSAP approach since the European sovereign debt crisis and the global financial crisis. European institutions are closely involved in consultations with IMF staff in the run-up to FSAP reports. Here, the importance of coordination between the different EU actors and the European Parliament is of importance, but more so, in the follow-up. At the moment, there are no clear procedures about a transparent or systematic process of implementation. Here, broader public debates –led by the European Parliament- both about the IMF recommendations related to Article IV and FSAPs could increase transparency, but also public awareness about possible economic adjustments across the Eurozone. Furthermore, clearer roadmaps and debates about European implementation plans might increase the effectiveness of the IMF-EU dialogue on economic reforms and risk awareness.

From a European Parliament perspective, a strengthening of MEPs focus and expertise on FSAPs would provide the EP with further possibilities for contributing to key discussions and to shaping the public debate. Particularly in the context of exchanges with the ECB's President Mario Draghi (in the context of the so-called "Monetary Dialogue"), the EP's Committee on Economic and Monetary Affairs could exert influence.

Post-Crisis Integrated Surveillance and IMF-G20 Cooperation

As briefly mentioned above, the IMF has taken several steps in the wake of the financial crisis towards more integrated and cross-fertilizing analysis of indicators that could point towards risks of global financial instabilities. This has been a reaction to some of the main critics levelled against the organization in the wake of the financial crisis. 'Silo-thinking' and 'group think' as well as an inability to 'connect the dots' meant that better coordination between the surveillance instruments and clearer publications were needed.

In 2012, the IMF adopted the Integrated Surveillance Decision (ISD), which came into effect in January 2013. The main aim of the ISD has been to "improve the quality, evenhandedness, and effectiveness of the IMF's surveillance, as well as foster a better integration of all surveillance activities".[87] This was supposed to be achieved by developing stronger emphasis on 'spill over effects'. Thus, spill over reports have been introduced which are "intended to fill the gap between the domestic focus of country/bilateral surveillance and the broad sweep of the analysis of these issues in the WEO and GFSR".[88] The results are discussed at the Executive Board, just after the completion of the Article IV consultations on the five most 'systemic' economies (namely China, the euro area, Japan, the United Kingdom and the United States – or the so-called 'S5'). This provides the Fund with a more accurate view of systemic risks between major economies. Furthermore, stronger emphasis was placed on financial sector assessments. Hence, the IMF Executive Board decided in 2010 to make **Financial System Stability Assessments (FSSAs**) a mandatory part of the FSAPS of the 29 most systematically important financial centers worldwide.[89] As mentioned above, further reinforcement and coherence has been promoted as a result of summarizing all findings of the IMF's main flagship reports in the Managing Directors' Global Policy Agenda.

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[87] International Monetary Fund (2013) Factsheet – Integrated Surveillance Decision, 30 September 2013, available online at https://www.imf.org/external/np/exr/facts/isd.htm.

[88] David J. Robinson (2014), op.cit., p. 16.

[89] Independent Evaluation Office (2014) IMF Response to the Financial and Economic Crisis, Washington D. C. : IEO, p. 12.

Further products and initiatives in monitoring risks and communicating them early enough have been pursued as a result of the IMF's interaction with the G20. While the so-called G7 was intimately connected to the IMF since the mid-1970s (sometimes even criticised for acting too much as a pre-coordinating cartel within the IMF), the impacts of the global financial crisis elevated the G20 from 2008 onward to the prime organ and forum for coordinating international responses to addressing "issues related to global growth and international monetary and financial stability (e.g., reform of the international monetary system, quotas and governance, global financial safety nets)."[90] As core issues increasingly touched upon core competences of the IMF, the practice emerged in 2009 that the IMF's Managing Director participates in G20 meetings on an ex officio basis. Further links between the IMF and G20 are maintained by virtue of the fact that members of the G20 include the finance ministers and central bank governors of the G7 as well as the European Union, which is represented at finance ministerial level by the Commission, the rotating Council Presidency and the European Central Bank. In total, the G20 represents 77 % of the voting power in the IMF and "once an internal consensus is reached by the G20, there is every expectation that the IMF will follow through accordingly".[91] Thus, while there is no legal link between the G20 and the IMF, it is clear that decisions made in the G20 will have an important bearing on IMF decision-making.[92] In addition, in the early years of G20 responses to the global financial crisis, the IMF (and in particular its Research Department) was seen as a de facto 'secretariat' for the G20 in terms of providing technical support and analytical input. [93]

In this vein, it is important to point out that in November 2008 the G20 requested the IMF to carry out –in cooperation with the Financial Stability Board- regular **Early Warning Exercises (EWEs)** in order to assess "low-probability but high-impact risks to the global economy and identifies policies to mitigate them".[94] The **joint IMF-FSB reports**, which draw on a wide range of consultations with key experts within the FSB and IMF and outside, are confidential and are presented to the IMF's IMFC. The EWE has been viewed as a useful addition to the IMF's post-crisis assessment tools, but concerns remain that the results are still not integrated well enough with other department's evaluations of global vulnerabilities and risks.[95]

Furthermore, the IMF and G20 have cooperated since 2009 in the so-called **'Mutual Assessment Process' (MAP).** This instrument was created by the G20 in the framework of the Framework for Strong, Sustainable, and Balanced Growth. The idea behind the MAP is to regularly set and monitor joint objectives and collective actions between the G20 members in order to reach the goals of reducing macroeconomic imbalances and of promoting global growth. The MAP is thus another tool and process for analysing national economic policies with particular emphasis on identifying their spillover effects on other countries and on global economic growth. In this context, IMF staff was tasked to provide analytical assistance and input to the MAP. This included analyses of "whether policies

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[90] See International Monetary Fund (2015) Factsheet - A Guide To Committees, Groups, And Clubs August 19, 2015.

[91] Thomas Bernes (2014) 'IMF Leadership and Coordination Roles in the Response to the Global Financial Economic Crisis', IEO Background Paper, Washington D.C. : Independent Evaluation Office, p. 4

[92] idem.

[93] idem, p. 5.

[94] See International Monetary Fund (2015) Factsheet – IMF-FSB Early Warning Exercise, 15 April 2015.

[95] Independent Evaluation Office (2014) IMF Response to the Financial and Economic Crisis, Washington D. C. : IEO, p. 22.

pursued by individual G20 countries were collectively consistent with the G20s growth objectives" and preparing "a series of sustainability reports on major imbalances among members".[96]

While the initial involvement of the IMF in the G20's deliberations and responses to the financial crisis can be seen as an affirmation of the IMF's central role in global economic governance, recent evaluations paint a more critical picture and allude to the IMF's declining influence in the G20. Indeed, during recent years the G20 invited other organizations, such as the OECD, the FSB, the Bank of International Settlements and UN agencies to enhance cooperation. As a result the IMF's position as 'primus inter pares' is no longer guaranteed.[97] One line of argument is that as long as the IMF itself does not achieve a reform of its quota system (and hence a more equal distribution of voting shares among the emerging economic powers) its influence in the G20 is set to decline even further.[98]

2.4.2 Financial Assistance (Lending) and IMF Programs

As outlined in the Articles of Agreement (Article I, v – vi) one of the core purposes, functions and activities of the IMF has been the provision of financial assistance in the form of temporary loans "to member countries experiencing actual or potential balance of payments problems. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems".[99] This not only means that, as a requirement enshrined in the AoA, IMF loans are on a short-term basis, but also that the IMF attaches certain conditions and requirements to the borrowing countries in terms of financial and economic reform policies. As the IMF has put it, "conditionality—the link between the approval or continuation of the Fund's financing and the implementation of specified elements of economic policy by the country receiving this financing—is a salient aspect of the Fund's involvement with its member countries. This link arises from the fact that the Fund's financing and policy adjustments by the country are intended to be two sides of a common response to external imbalances".[100] Thus, conditionality attached to IMF loans is meant to guarantee that the countries return to growth and prosperity in the medium-term, hence guaranteeing that the loan is repaid to the IMF. From the 1980s onwards, IMF conditionality began to undergo some significant transformations.

As a result of the IMF's increasing involvement in low-income or transition economies, IMF conditionality became more intrusive with the development of specific policy requirements demanding far-reaching 'structural changes' in the recipient economies.[101] Some economists questioned the impact of IMF conditions such as 'liberalisation, privatization and

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[96] Thomas Bernes, op. cit, pp. 6-7.

[97] Ibid, p. 8.

[98] ibid, pp. 7-8.

[99] International Monetary Fund (2015) Factsheet IMF Lending, April 2015, available online at https://www.imf.org/external/np/exr/facts/pdf/howlend.pdf.

[100] See IMF (2001) 'Conditionality in IMF-supported programs – Overview', available online at http://www.imf.org/external/np/pdr/cond/2001/eng/overview/.

[101] See IMF (2015) 'Factsheet IMF Conditionality', April 2015, available online at https://www.imf.org/external/np/exr/facts/conditio.htm.

austerity' on the recipient countries' economic growth.[102] Particularly the IMF conditions attached to the loans in response to the East Asian financial crisis in the late 1990s and to Latin American countries, such as Mexico, Chile and Argentina, were blamed for intrusiveness, complexity and a 'one-size-fits-all' approach that relied too heavily on the so-called 'Washington Consensus' emphasis on public spending cuts, trade liberalisation, tax reform, privatization and deregulation.[103] Apart from critiques of the appropriateness of these policy prescriptions[104], critics also pointed out the proliferation of sheer number of conditions attached to loans. In the case of Indonesia in 1997, for example, the government was asked to implement 140 conditions in order to be eligible for an IMF loan.[105]

As a result of the 1990s and, again after the global financial crisis of 2008, the IMF revised and reformed its conditionality guidelines in 2002, 2009 and 2012.[106] Consequently, IMF conditionality is supposed to be as 'parsimonious' as possible and structural reform conditions should be more tailored to country-specific needs and conditions, should only be advanced if they are critical to the achievement of program goals and are based on local ownership.[107]

Box 5: The IMF's Nine Most Common Structural Reform Conditions[108]

In its 2007 review of Structural Conditionality, the IMF's IEO has grouped the IMF's main conditions into nine categories. The first four categories (in bold) have been defined by the IMF as its "Core areas".

1. Taxation issues

2. Public Expenditure Management

3. Financial Sector Reform

4. Other fund Core Activities (related to trade, exchange rate and monetary policies)

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[102] See for the most well-known supporter of this view, Joseph Stieglitz (2003) Globalisation and its Discontents, London: Norton or Adam Przeworski and James Vreeland (2000) 'The effect of IMF programs on economic growth' Journal of Development Economics, vol. 62 (2000).

[103] The term 'Washington Consensus" was first coined by the British Economist John Williamson in 1989 in the contest of policy responses to the Latin American debt crisis. In an article analyzing the policy prescriptions of the Washington based financial institutions with global reach (e.g. the US Congress, the IMF, World Bank, the Federal Reserve Board, the US Treasury Department and think tanks), Williamson summarized 10 policy instruments related to: fiscal deficits, public expenditure priorities, tax reform, interest rates, the exchange rate, trade policy, foreign direct investment, privatization, deregulation and property rights. See John Williamson 'What Washington Means by Policy Reform", reprinted by the Peterson Institute for International Economics, November 2002, available online at http://www.iie.com/publications/papers/paper.cfm?researchid=486.

[104] However, such criticisms have not always been entirely accurate or justified. In the case of the IMF's response to the Latin American debt crisis, for instance, IMF staff had clearly voiced their concerns about austerity policies that were in some cases proposed by Latin American governments themselves.

[105] Allan H. Meltzer (2004) 'The IFIAC report: comments on the critics, in David Vines and Christopher L. Gilberts (eds.) The IMF and its Critics: Reform of the Global Financial Architecture, Cambridge: Cambridge University Press, p. 114.

[106] See IMF (2015) 'Factsheet IMF Conditionality', op.cit.

[107] For a good overview of the issue structural conditionality, see Independent Evaluation Office (2007) 'Structural Conditionality in IMF-supported Programs', Washington D.C.: IMF.

[108] See ibid, pp. 4-5.

5. State-owned enterprises (SOE) reform
6. Privatisation
7. Civil Service
8. Social Policies
9. Other World Bank Core Activities

A recent study on IMF conditionality concluded that the average number of structural conditions attached to IMF loans fell to an average number of 13 to 14 per loan and programme in the years between 2003 and 2007.[109] However, in response to the financial crisis and European debt crisis, the number of conditions seems to be slightly on the rise again.[110] An IEO evaluation found in 2007 that only a little over half of the IMF's conditions in programmes were met by recipient countries on time.[111] In 2012, the IMF once again reviewed its structural conditionality, in particular with reference to its emerging lessons from handling the European sovereign debt crisis. Thus, the review "warned that the IMF faced new challenges, **particularly in the current euro area crisis where the size of the debt burdens, the systemic nature of the crisis, and the need for coordination across institutions made both forecasting and program design more complex**".[112]

This view already foreshadowed the increase of tensions and competing visions between the IMF and the European institutions (European Commission, European Central Bank and Eurogroup) as well as core European member states during the 'Troika' approach to the Greek debt crisis (see Sections 2.4.4 and 4.4 below).

Conditionality is attached to a variety of IMF loans, which themselves have undergone certain transformations over the last four decades. The most frequently used and disbursed loan programme is the so-called '**IMF Stand-by-Arrangement" (SBA),** which has been in use since 1952 and has been described by the IMF as its "workhorse lending instrument for emerging and advanced market countries".[113] As a non-concessional short-term loan (i.e., interest rates are not 'soft', but typically lower than market rate) that typically lasts 1-2 years, it is the IMF's most common tool for responding "quickly to countries' external financing needs, and to support policies designed to help them emerge from crisis and restore sustainable growth".[114] Since it was originally established as a (relatively) short-term instruments, repayments of loans under the SBA are envisaged within a period of three to five years.

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[109] Jesse Griffiths and Konstantinos Todoulos (2014) 'Conditionally yours: An analysis of the Policy Conditions attached to IMF Loans', Brussels: EURODAD, p. 4.

[110] idem.

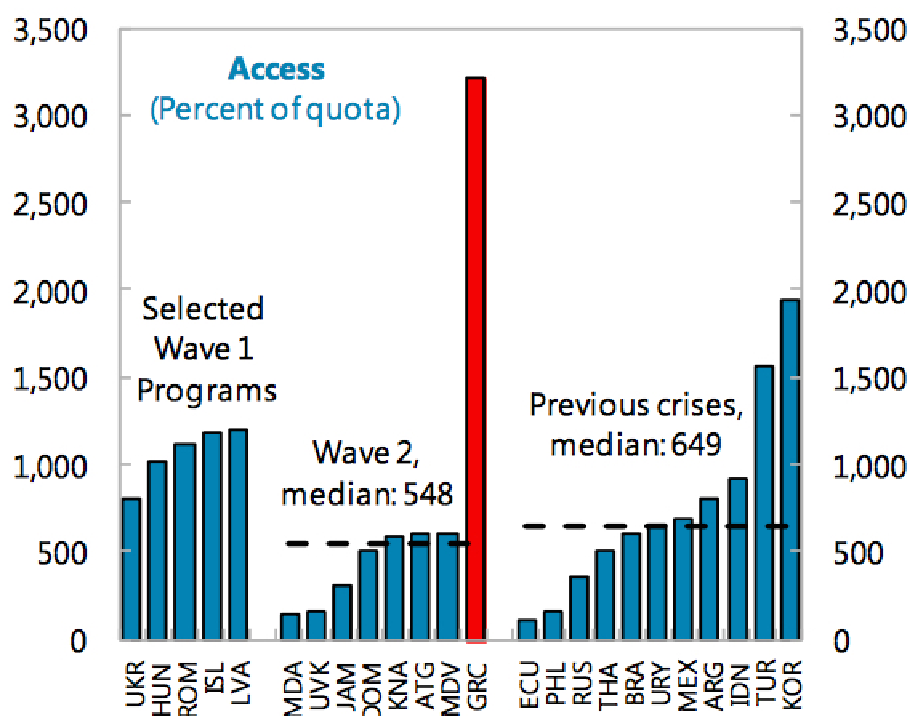
[111] See Independent Evaluation Office (2007) 'Structural Conditionality in IMF-supported Programs', Washington D.C.: IMF, pp. 8.

[112] International Monetary Fund (2012) Review of Conditionality - Terms of IMF Lending Seen as More Focused, Better Tailored, IMF Survey online, 17 September 2012, available online at http://www.imf.org/external/pubs/ft/survey/so/2012/POL091712A.htm.

[113] International Monetary Fund (2015) Factsheet – IMF Stand-by Arrangement, 10 April 2015, available online at https://www.imf.org/external/np/exr/facts/sba.htm.

[114] idem.

Figure 3 Overview of Loan Access to IMF loans as percentage of quota



Source: IMF (2013: 9).

It was indeed **under the SBA that Greece received in 2010 an exceptionally large IMF loan of €30 billion.** This loan was 'exceptional' in many ways, as it was largest IMF pogramme ever released, relative to Greece's IMF quota (3,212 %).[115] Indeed, the second highest programme was the IMF loan to South Korea (at less than 2,000 % of quota).

In 1974, the IMF introduced a second loan programme under the so-called **Extended Fund Facility (EFF).** As its name suggests, the EFF was created in order to address countries' medium- and longer-term balance of payment problems which have been caused by serious structural impediments or slow growth. Initially, these loans were mostly geared towards low-income countries.[116] Given its focus, programmes under the EFF place a heavier emphasis on structural conditionality and far-reaching reforms in the recipient country over a longer period. Accordingly, the repayment period lasts between 4 – 10 years. A country's performance and compliance with structural adjustments conditions are regularly reviewed by the IMF's Executive Board. **In March 2012, Greece cancelled its loan arrangement under the SBA and instead was granted a €28 billion loan under the EFF** – signaling that its structural adjustment policies required more far-reaching and longer-term efforts.[117]

[115] See International Monetary Fund (2013) Greece: Ex Post Evaluation of Exceptional Access under the 2012-Stand-By Arrangement, IMF Country Report No. 13/156, June 2013, p. 9. Available online at https://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf.

[116] International Monetary Fund (2015) Factsheet - 'The IMF's Extended Fund Facility (EFF), Washington D.C. : IMF, available online at https://www.imf.org/external/np/exr/facts/eff.htm.

[117] International Monetary Fund (2012) IMF Executive Board Approves €28 Billion Arrangement Under Extended Fund Facility for Greece, Press Release No. 12/85, March 15, 2012 available online at https://www.imf.org/external/np/sec/pr/2012/pr1285.htm.

As a result of the financial crisis, the IMF introduced a range of more flexible loans that are lighter in terms of conditionality. The so-called **Flexible Credit Line (FCL)** is for countries that do not face fundamental structural problems, but are in need of short-term funding. Instead of ex-post conditionality, the principle of ex-ante conditionality is applied: i.e., it will be checked whether a country is eligible based on its economic situation and track-record in repayments. In recent years, Columbia, Mexico and –in the European Union- Poland accessed the FCL.

In 2010, the IMF introduced the **Precautionary and Liquidity Line (PLL)** for countries that cannot quite meet the criteria of the FCL and are exposed to moderate vulnerabilities. Yet, countries receiving the PLL do not face substantial conditionality requirements associated with the SBA or EFF.

In 2011, the **Rapid Financing Instrument (RFI)** was established to replace existing emergency assistance instruments. The RFI is available to all member countries and designed for situations where a full-fledged economic program is not needed.

In contract to these non-concessional loans, the IMF also developed three **concessional loan** instruments. **The Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF)** are instruments that are in particular geared towards low-income countries. Hence, the interest rates are considerably lower (in most instances close to 0%) and grace periods up to 5 ½ years are possible. These new arrangements became effective in January 2010 under the Poverty Reduction and Growth Trust (PRGT) in order to make lending more flexible and accessible for developing countries.[118]

As briefly alluded to at the beginning of this paper, overall trends in IMF lending have significantly changed during the last decade (see Figure 3 below). Not only have the numbers of loans increased sharply, but also the size of each loan has been (particularly in the case of Greece) unprecedented. Furthermore, the **geographic distribution of IMF loans has fundamentally changed as a result of the European sovereign debt crisis**. In 2012, credit owed by the European Union countries amounted to the largest part of outstanding IMF credit. This shift to European and advanced economies marks an important contrast to the 1990s when the loan share of advanced economies was close to zero.[119]

This does not only have a strong impact on the relationship between the European Union and the IMF (discussed further in Section 3 below), but also on the IMF's relations with non-Western member states in the context of governance and legitimacy issues of the IMF (see section 5 below).

As already outlined previously., the **decision-making powers related to the decisions on particular loans** are vested within the Executive Board, but most of the preparatory work (including country negotiations) is carried out by the staff. Staff members, mostly regional desks familiar with the country, prepare an "arrangement" upon the request for a loan made by a recipient country. After consultations between the country and the IMF staff a 'letter of intent' is prepared that stipulates the conditions and economic policies the country should follow, if the loan is accompanied by a programme.[120] The Letter of Intent (or "Letter of Intent, Memorandum of Economic and Financial Policies, and Technical

[118] International Monetary Fund (2015) Factsheet IMF Lending, April 2015, op.cit.

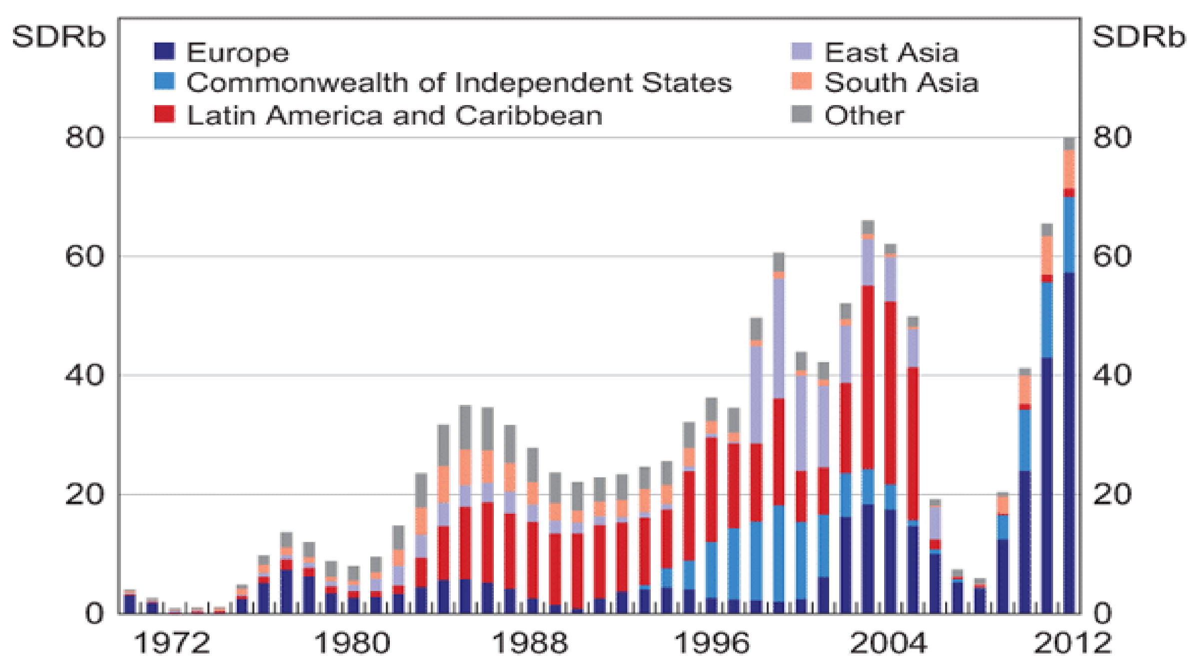
[119] Martin A. Weiss (2014) International Monetary Fund : Background and Issues for Congress, Washington : Congressional Research Service, p. 12.

[120] International Monetary Fund (2015) Factsheet IMF Lending, April 2015, op.cit.

Memorandum of Understanding" as it is officially called in full) is normally ranges between 40 and 60 pages and includes detailed analyses of the economic situation and clear benchmarks of desired future economic performances.[121] Since the late 1990s, the IMF made these documents publicly available in the interest of transparency.

Formal proposals for loan requests and the letter of intent are then prepared by the Managing Director and submitted to the Board for final approval. In most cases, the Board follows the MD's recommendations - although there have been cases where disagreements between Executive Directors have resulted in abstentions. For example, when the Board had to consider a proposal for a loan agreement with Mexico in 1995, several Western European Board members abstained.[122]

Figure 4: IMF Credit Outstanding by Region 1972 - 2012



Source: Thomas Reuters, cited in Edwards and Hsieh (2011).

In recent years there has been a large number of studies examining the formal and informal procedures related to decisions made by the Executive Board on loans and conditionality that all come to the same conclusion: the influence of the United States is significant when it comes to decisions about IMF loans.[123]

Thus, in the informal governance processes of the Board, the Managing Director and the US play an important part. Hence, both the influence of former Managing Director Strauss-Kahn and current MD Lagarde as well as the US position were important in the IMF's loan decisions regarding European countries and the 'Troika'. Furthermore, the influence of

[121] For a complete list of Letters of intents since 1998, see http://www.imf.org/external/np/loi/mempub_new.asp.

[122] Leo Van Houten (2002). Op.cit., 25.

[123] See for example Strom C. Thacker (1999) 'The High Politics of IMF Lending', World Politics, No. 52, (October 1999) pp. 38 – 75; Thomas Oatley and Jason Yackee (2004) American Interest and IMF Lending, International Politics, 41, pp. 415 – 429 and Randall W. Stone (2011) Controlling Institutions: International Organizations and the Global Economy, Cambridge: Cambridge University Press.

Germany and France in the Executive Board were particularly strong during the negotiations regarding Greece in 2010 (see Section 4 below).

Yet, the most recent public disagreements between the IMF and the Europeans also highlight the limits of European influence and EU-IMF cooperation in the context of the euro area crisis (see 2.4.4 and Section 4 below).

2.4.3 Technical Assistance

Technical Assistance, Training and what the IMF more recently refers to as 'Capacity Development' forms the third and final major part of the IMF's core activities. Its importance is anchored in Article V, Section 2 (b) of the Articles of Agreement: "If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members that are consistent with the purposes of the Fund".[124] Technical Assistance (TA) is, after surveillance activities, the IMF's second largest activity and consumes roughly 20% of the Fund's resources.[125] IMF TA activities have increasingly received external donor funding, necessitating IMF cooperation with other actors. Yet, TA remains a rather hazy and broad concept that spans and includes a wide range of IMF activities. Indeed, from a legal perspective 'technical assistance' includes some of the Fund's surveillance tasks (non-mandatory FSAPs and the Mutual Assessment Programme) as well as fact-finding missions and diagnostic work.[126] The overarching aim of technical assistance is to "help improve the design and implementation of members' economic policies, by strengthening skills in institutions, such as finance ministries, central banks, and statistical agencies."[127] As such, it focuses particularly on providing training in areas related to four main areas: monetary and financial policies, fiscal policy and management, statistics and advising on financial legislation.

Technical assistance can be implemented on different time-frame and in different manners. It ranges from short-term (2-3 weeks) intervention to longer-term (more than 6 months) capacity-building. It can either be delivered through short-term country visits or longer-term deployment of resident specialists.

Box 6: Main Scope of Technical Assistance[128]

1. "Monetary and Financial Policies (monetary policy instruments, banking system supervision and restructuring, foreign management and operations, clearing settlement systems for payments, and structure development of central banks)

2. Fiscal Policy and Management (tax and customs policies and administration, budget formulation, expenditure management, design of social safety nets and management of domestic and foreign debt)

3. Statistical Data – advice on compilation, management, dissemination and improvement of statistical data

4. Advising on economic and financial legislation"

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[124] Articles of Association, Section 2 (b).

[125] Independent Evaluation Office (2014) 'IMF Technical Assistance: Revisiting the 2005 IEO Evaluation', Washington D.C.: IEO, p. v.

[126] ibid, 1.

[127] See http://www.imf.org/external/about/techasst.htm.

[128] Information for this box cited from http://www.imf.org/external/about/techasst.htm.

Often, technical assistance is not an isolated activity, but complements existing surveillance, lending or reform programmes.[129] While at present, approximately two-thirds of all of the IMF's technical assistance activities focus on low-income and middle-income countries, TA is also offered to more developed **countries, including European Union member states.** Indeed, Greece, Portugal and Cyprus for example, have received IMF technical assistance in the areas of tax administration and financial sector policies.[130]

Between 2008 and 2012, technical assistance underwent – just like the IMF's other core activities- significant reform, both as a result of the crisis and a 2005 IEO evaluation. Reforms ranged from introducing clearer performance indicators and follow-up mechanisms, more efficient allocation of resources and efforts to strengthen and streamline IMF relations with external partners and international donors.[131] **The last point also included strengthened relations between the IMF and the European Union** in joint capacity-building projects in low-income countries as well as in EU member countries themselves**.** In fact, since 2009 the European Union has become the second largest donor to IMF capacity-building projects, particularly in the developing world.[132] In May 2015, both organizations signed a 'Framework Administrative Agreement for Capacity Development Cooperation', which renewed an earlier IMF-EU agreement from 2009 (see section 2.4.4 below). Other international partners, with which the IMF has regularly cooperated in the field include the World Trade Organization, the World Bank, the OECD (in matters of task advice), G20, Financial Stability Board (FSB) as well as regional organizations and bilateral donors. This trend of bilateral and inter-organizational cooperation is set to grow further and requires clarification and structured approaches to a coordinated approach to technical assistance and capacity-building. Yet, it also increased the IMF's resources and allowed for more projects to be launched.[133]

Internally, the IMF reformed its TA approaches by merging its Office of Technical Assistance Management joined with the IMF Institute in 2012 in order to "become the Institute for Capacity Development, aiming to promote collaborations and better coordination between IMF technical assistance, training and other elements of capacity development".134 Furthermore, in 2013 the IMF also launched online training courses in cooperation with Harvard University and MIT.135 An important development, first launched in 1992 but significantly increased during the last decade, has been the launch of 'Regional Technical Assistance Centers'. These centers, based mainly in the Caribbean, Africa and the Middle East, are partnerships between the IMF, participating countries and external donors and focus on capacity development and training across the main spectrum of IMF expertise. The usefulness and impact of these 'RTACs' has been noted in the recent IEO Evaluation of the

[129] idem.

[130] 'IMF Technical Assistance', in the Bretton Woods Observer, 31 March 2014, available online at http://www.brettonwoodsproject.org/2014/03/inside-institutions-imf-technical-assistance/.

[131] See Independent Evaluation Office (2014) 'IMF Technical Assistance: Revisiting the 2005 IEO Evaluation', Washington D.C.: IEO.

[132] See International Monetary Fund (2015) 'European Union and International Monetary Fund sign a new Framework Administrative Agreement for Capacity Development Cooperation', Press Release No. 15/232, May 21, 2015.

[133] Independent Evaluation Office (2014) 'IMF Technical Assistance: Revisiting the 2005 IEO Evaluation', Washington D.C.: IEO, pp. 4-5.

[134] Bretton World Observer, op.cit.

[135] See IMF Annual Report 2013, p. 45, available online at https://www.imf.org/external/pubs/ft/ar/2013/eng/pdf/ar13_eng.pdf.

IMF's technical assistance reforms, including their impact in terms of strategic advice and their promotion of regional expertise and local ownership.[136]

In general, the IMF's technical assistance activities have grown in significance and importance since the financial crisis and have also had a significant share in European Union countries (see below). The IMF expects to conduct a comprehensive review of all technical activities to be carried out in 2017.[137]

2.4.4 Joint EU-IMF Activities

As mentioned previously in this report, the financial crisis of 2008 and the European sovereign debt crisis changed the relationship between the IMF and European Union, both at the member state and inter-organizational levels. Indeed, as outlined in more detail in Section 4.1 below, the IMF and European Union institutions first began to cooperate in the context of financial assistance to Hungary in 2008. Monitoring and surveillance tasks were vested in the IMF in close coordination with the European Commission. Staff of both organizations interacted on the ground. This model was then reproduced in Latvia and Romania in 2009 and 2010. Yet, the most intensified, expansive and comprehensive cooperation has taken place in the context of the 'Troika' approach to Greece since 2010. Differences between the early cooperation instances and current cooperation in Greece are clear. While the share of IMF loans compared to EU loans was significantly higher in the case of Hungary, in Greece the situation is reversed with the EU being the largest donor and the IMF a 'junior partner'.[138] Indeed, as interviews with EU and IMF officials have confirmed, the level of financing also determines to a large extent the organizations' influence in a given programme: "Your influence and clout is of course bigger if you pay more".[139]

In the case of Greece, while the IMF might be – from a loan perspective– the "junior partner" it nevertheless sees itself as a senior partner when it comes to providing the

In the case of Greece, while the IMF might be – from a loan perspective– the "junior partner" it nevertheless sees itself as a senior partner when it comes to providing the required technical expertise and human resources related to crisis management. IMF officials also stressed that they felt less 'political pressure' in their dealings with Greece compared to the European Commission. "Particularly when it comes to pressures from European governments or the Eurogroup, IMF staff are less under political pressure".[140] This view is also in line with the general assumption that IMF staff feels that they enjoy more political autonomy than other officials in international organizations.[141]While the biggest success of the 'Troika' has certainly been the prevention of contagion of the Greek crisis to the euro area and beyond, the recent conflictual episodes during the summer 2015 highlight the on-going political, economic and inter-organizational disagreements between both organizations. A particular sticking point has been the issue of 'debt sustainability', when the IMF chose the unprecedented step of issuing a public staff note on the

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[136] Independent Evaluation Office (2014) 'IMF Technical Assistance: Revisiting the 2005 IEO Evaluation', Washington D.C.: IEO, p. 9.

[137] Interview with senior IMF official, July 2015.

[138] In the case of Hungary, the IMF provided the bulk of the loan (12.5 billion Euros) with the Union providing 6.5 billion and the World Bank 1 billion Euros.

[139] Interview with senior IMF official, July 2015, Brussels.

[140] Interview with IMF official, Washington, August 2015.

[141] idem.

unsustainable level of Greek debt and the demands for debt restructuring, fervently opposed by a large group of EU member states[142] (see sections 3 and 4 below). This seems to be in direct contradiction of earlier understandings that disagreements would not be raised in public.[143] Nevertheless, at the staff-to-staff levels, both IMF and EU staff confirmed that "during the last seven years both organisations learned a great deal from each other and cooperation on the ground was generally good".[144]

A core issue that remains unaddressed from a good governance perspective is the decision-making process, procedures and accountability related to the conditions attached to loans to Greece that have highly intrusive consequences. While both the IMF and the European institutions (particularly the non-institutionalised Eurogroup) suffer to differing degrees from their own transparency and accountability issues, consultations between both organizations as well as the decision-making modalities remain opaque. Here, more clarity and more public debates should be demanded by the European Parliament and the practice of inviting European member states' Executive Directors, senior officials from the European institutions, and the director of the IMF liaison office in Brussels to European Parliament workshops or hearings should be considered. After an initial period of lack of clarity on the legal or governance position of the 'troika', the legal position of the troika and appropriate oversight were clarified in the 2013 regulation 427/2013 of the European Parliament and Council.[145] The regulation sets out that programme management by "the Commission – acting on behalf of the ESM or the EFSF, in liaison with the European Central Bank (ECB) and, where appropriate, the IMF".[146] This formally endorsed the involvement of the Troika in programme countries and set out rules on transparency and accountability of the Commission as a member of the Troika. The provisions of Regulation 472/2013 formalise existing approaches in implementing financial assistance programmes, which initially had to be done in an ad hoc way in a crisis situation. In addition, the (intergovernmental) European Stability Mechanism Treaty (ESM) entrusts programme management to "the European Commission – in liaison with the ECB and, wherever possible, together with the IMF".[147]

Yet, many questions remain open about oversight and transparency and governance. Moreover, observers criticized that the ECB (as the monetary authority of a country in negotiations with the IMF – i.e. Greece) and the European Commission sat on the same side of the table as the IMF.[148] Furthermore, in future questions about but the precise relationship between the IMF and ESM, which has been seen by some senior IMF officials as a direct competition[149], need to be addressed.

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[142] See International Monetary Fund (2015) 'Greece: An Update of IMF Staff's Preliminary Public Debt Sustainability Analysis, IMF Country Report, No. 15/186, July 2015, available online at https://www.imf.org/external/pubs/ft/scr/2015/cr15186.pdf.

[143] Thomas Bernes (2014) 'IMF Leadership and Coordination Roles in the Response to the Global Financial Economic Crisis', IEO Background Paper, Washington D.C. : Independent Evaluation Office, p. 12.

[144] Interviews with EU official, July 2015 and IMF officials in Washington and Brussels, July 2015.

[145] See Official Journal of the European Union (2013) Regulation No 472/2013 of the European Parliament and the Council on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, 21 May 2013 available online at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:140:0001:0010:EN:PDF

[146] ibid, Article 12.

[147] See ESM Treaty, Article 13 (3). Available online at http://www.esm.europa.eu/pdf/ESM%20Treaty%20consolidated%2013-03-2014.pdf.

[148] Bernes (2014), op.cit., 12.

[149] Interview with IMF Senior Official, Washington D.C., July 2015.

As already mentioned above, EU-IMF cooperation goes beyond joint lending programmes and the "Troika', but has also been strong and institutionalised in the area of technical assistance. Apart from cooperation on joint projects in low-income countries, the EU and IMF have also closely cooperated in field of capacity building in the context of the Greek debt crisis. Within the 'Task Force for Greece' (TFGR), which was launched by the European Commission in July 2011, the IMF focused on technical assistance in the area of tax administration and public financial management – a task the IMF had already focused on since April 2010.[150] Here DG TAXUD and the IMF cooperated intensely. With the renewal of their 'Framework Administrative Agreement for Capacity Development Cooperation' the IMF-EU "partnership has intensified with the organizations supporting each other's work, through regular consultations at staff and management level, the development of an EC exogenous shocks facility and complementarities of EU budget support and IMF lending programs, as well as through developing capacity building instruments such as the Tax Administration Diagnostic Assessment Tool".[151]

From the IMF's perspective, the level of cooperation between the IMF and the EU as a regional organization has been unprecedented in its depth, scope and inter-organizational cooperation. While it has experienced a variety of deep challenges in recent years, it has nevertheless been a partnership in regional and global economic governance that offers important lessons and further potentials. In a recent review of the IMF's handling of the financial crisis, the aspect of the IMF's inter-organizational relations –particularly with the troika' received sustained attention. One core recommendation of the report was that "the IMF should develop guidelines for structuring engagements with other organizations, whether as a member or a partner. These guidelines should clarify the IMF's roles and accountabilities in order to protect the institution's independence and to ensure uniform treatment of all members."[152] Similar concerns could be raised from an EU perspective.

The next part of this paper will explore in more detail the EU's role, relationship and impact in relation to the IMF from a distinct EU perspective.

[150] See Alvarez & Marsal Taxand and Adam Smith International (2014) Preliminary Evaluation of the Technical Assistance provided to Greece in 2011-2013 in the areas of Tax Administration and Central Administration Reform, July 2014. Available online at http://ec.europa.eu/about/taskforce-greece/pdf/tfgr/evaluation_report_alvarez_july_2014_en.pdf , p. 8.

[151] International Monetary Fund (2015) 'European Union and International Monetary Fund sign a new Framework Administrative Agreement for Capacity Development Cooperation', Press Release No. 15/232, May 21, 2015.

[152] Independent Evaluation Office (2014) IMF Response to the Financial and Economic Crisis, Washington D. C. : IEO, p. 27.

3. THE EU'S ROLE, RELATIONSHIP AND IMPACT VIS-À-VIS THE IMF

3.1. The legal limitations of EU representation in the IMF

The EU framework for coordination and representation of the Economic and Monetary Union is based on European Council conclusions, Art. 138 of the *Treaty on the Functioning of the European Union*, and the *Statute of the European System of Central Banks and of the European Central Bank*. These provisions aim to ensure the coherence of the EU and its ability to "speak with one voice on issues of particular relevance to the Economic and Monetary Union".[153] According to Art. 138 of the *Treaty on the Functioning of the European Union*, in order to "secure the euro's place in the international monetary system", the Council, on a proposal from the European Commission, shall adopt a decision establishing "common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences". In addition, the Council, on a proposal from the European Commission, may adopt appropriate measures to "ensure unified representation within the international financial institutions and conferences." In these efforts, the Council shall act after consulting the ECB. For such measures, only members of the Council representing member states whose currency is the Euro shall take part in the vote.[154] However, a formal "unified representation" in terms of membership of the EU at the IMF is impossible without an amendment to the IMF AoAs . The IMF is a member states centric organization, and its *Articles of Agreement* restrict membership to countries.[155]

3.2. The EU's role, coordination and impact in the IMF

As the EU is not a member of the IMF and it thus not represented at the IMF, the EU's possibilities to directly shape the agenda of the IMF are very limited. However, as will be illustrated, due to the informal coordination of the EU member states in the IMF, the EU has indirectly significant impact on IMF decisions.

3.2.1 Representation of EU institutions in the IMF

The only European institution with a formalized representation at the IMF is the European Central Bank (ECB). Since monetary and exchange rate policies in the EMU have been fully transferred to the euro area level, the ECB was granted permanent observer status at the IMF as from January 1999. The ECB observer is allowed to participate in Executive Board meetings on issues which fall within the ECB field of competence or which are considered of mutual interest between the ECB and the IMF. But in these meetings the ECB observer does not actively participate in discussions.[156] The ECB is also invited to participate as an observer in the meetings of the International Monetary and Financial Committee (IMFC). Within the IMF, the ECB observer also has an informational role as he is often consulted by

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[153] European Union (1998), "Presidency Conclusions of the Vienna European Council of 11 and 12 December of 1998", Brussels: European Union, para. 14/15.

[154] European Union (2012), "Consolidated Version of the Treaty on the Functioning of the European Union", Official Journal of the European Union, Brussels: European Union, Doc. C 326/49, Art. 138.

[155] International Monetary Fund (2011), "Articles of Agreement of the International Monetary Fund", Washington, D.C.: International Monetary Fund, Art. II.

[156] Interview with political advisor of IMF Executive Director, Washington, D.C., 30 July 2015.

non-EU members in the IMF to explain questions on the Euro Area.[157] Representatives of the ECB and the European Commission are invited to attend the meetings of the International Monetary and Financial Committee (IMFC) as obervers twice a year in the context of the IMF's Spring and Annual Meetings.

Although the European Commission has in the past years closely cooperated with the IMF during the financial crisis in Europe, it is not represented at the IMF Executive Board. The EC, however, seconds an EC official to the office of the Executive Director that holds the EURIMF Presidency. The official does not represent the EC but advises the EURIMF President and assists him in the EU coordination meetings. As such, s/he does not report back to Brussels, for example on EU coordination in the IMF Executive Board. However, (s)he can advise IMF staff when they look for relevant interlocutors in the European institutions.[158] The EU Commissioner for Economic and Monetary Affairs attends the meetings of the IMFC twice a year in the context of the IMF's Spring and Annual Meetings.

3.2.2 The role of constituencies and Executive Directors

As mentioned above, the EU is not directly represented at the IMF, but some EU member states play an influential role within the IMF. Germany, the UK, and France and have the right to appoint their own Executive Directors and Alternates in the Executive Board.[159] All other EU member states are members of multi-country constituencies that elect Executive Directors that speak on behalf of the constituencies. All EU member states that do not appoint an Executive Director are represented in seven multi-country constituencies. There is no multi-country constituency that consists of only EU member states.[160] Some EU member states maintain the position of the Executive Director in their constituencies and some the posts of Alternates.[161] The multi-country constituencies have their own charters and decision-making procedures, and in some constituencies the position of the Executive Director and the Alternates rotates between the constituency's members. All Executive Directors cannot simply promote national interests but are bound to commit to the objectives and the mandate of the IMF. Needless to say, the European members of the multi-country constituencies cannot simply promote a "EU position" in their constituency but also need to take the interests of the non-EU members into account when positioning themselves in the Executive Board.

The member states' representatives in the IMF are seconded by the national ministries of finance or central banks and are accountable to them. For example in the case of Germany, the ministry of finance in agreement with German central bank directs the work of the German Executive Director.[162] The member states' contributions to the IMF are usually

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[157] Interview with IMF staff, Washington, D.C., 28 July 2015. According to Dermot Hodson, the ECB voice is distrusted among some IMF Executive Directors that fear that the EU gains too much influence in the IMF. See Dermot Hodson (2011), "The Paradox of EMU's External Representation: The Case of the G20 and the IMF." Paper for the EUSA Twelfth Biennial International Conference, p. 25.

[158] Interview with IMF staff, Washington, D.C., 21 July 2015.

[159] The other countries that appoint an Executive Director in the Executive Board are the United States, Japan, China, Saudi Arabia and the Russian Federation.

[160] Ireland, Poland and Spain are in constituencies that include no other EU member state. Changes in the constituency composition have occurred over time.

[161] Italy, Belgium/Netherlands, Austria and Spain either permanently represent a voting group or participate in rotating representative privileges. The position of the Executive Director in the Nordic constituency rotates between its members.

[162] See Bundesrepublik Deutschland (1976), "Gesetz zu dem Übereinkommen über den Internationalen Währungsfonds in der Fassung von 1976 (IWF-Gesetz)", Bonn: Deutsches Bundesgesetzblatt.

provided by the national central banks or treasuries that act as the member states' fiscal agents and depositories of the national funds to IMF. The national contributions to the IMF are usually not approved by the national parliaments which, as a result, are not consulted on the application of IMF funds.[163] Although not accountable to them, some Executive Directors occasionally visit their national parliaments to report about IMF activities (e.g. in the Netherlands).[164] In an interesting case, Jens Weidmann, the president of the German central bank in April 2012 argued that the German Parliament (Bundestag) should formally approve the increase of the German contributions to the IMF (which amounted to EUR 41.5 billion) as the German Central Bank would not act on its own behalf but upon reques t of the German government. Weidmann argued that these additional funds could potentially be used for IMF crisis management programs that would be a financial burden to the German taxpayers. Weidmann's proposal was, however, objected by the governing coalition in Germany on the grounds that the German Central Bank should maintain its independence.[165]

3.2.3 EU coordination in Brussels and Washington

The two committees that deal most directly with the IMF are the Sub-committee on the IMF (SCIMF) in Brussels and EURIMF in the IMF. In Brussels, the Council of Economic and Financial Affairs Ministers (ECOFIN Council) is formally in charge of issues dealt with at IMF. The ECOFIN meetings are prepared by the Economic and Financial Committee (EFC) of which SCIMF is a sub-committee. SCIMF meets on a monthly basis and consists of two (not necessarily senior) representatives of each EU member state (from the finance ministries and the central banks) as well as representatives of the European Commission and the ECB. SCIMF closely monitors the activities of the IMF and prepares the work of the EFC on IMF-related issues, common statements on IMF issues (for example on IMF quota and governance reform, quota formula, sovereign debt restructuring, or SDR basket review) and the speech delivered by the EU Council Presidency at the annual and fall meetings of the IMF and the World Bank. This speech is usually broad enough to be consensual.[166] The European Commission acts as secretariat of SCIMF and in cooperation with the ECB provides the first draft of the common positions agreed in SCIMF and a majority of the background notes for the SCIMF discussions.

Particularly relevant for the IMF work is the Eurogroup Working Group (EWG) that is composed of the EFC representatives of the euro area member states, the European Commission and the ECB and provides assistance to both the Eurogroup and its President in preparing ministers' discussions. The EWG prepares positions on issues pertaining to the

[163] In contrast, some of the national parliaments in the Euro Area have to approve funds that are applied by the European Stability Mechanism (ESM) and need to stay informed about their application. Under the ESM, loans are financed through borrowing on the financial markets on national guarantees and are thus ultimately guaranteed by the taxpayers of the Euro Area countries. It is thus up to national parliaments to hold their governments to account. EU member states with "parliamentary reservation in this context include Germany, the Netherlands, Finland, Estonia, Slovakia, Slovenia, and Malta. In some circumstances also the parliaments in France and Italy have to approve loans. Members of parliament in those states have at times criticized that decisions on loans have to be taken too fast which prevents effective parliamentary oversight. In contrast to national parliaments, the ESM has no formal reporting requirements vis-à-vis the European Parliament whose role in this context is informational or consultative at best. The EP has repeatedly criticized the lack of democratic oversight of the ESM and demanded that the ESM should evolve towards Community-method management and be made accountable to the EP.

[164] The Executive Director of the United States is obliged to regularly appear before U.S. Congress.

[165] See e.g. Focus (2012), "Weidmann informiert Bundestag über IWF-Brandmauer", 25 April 2012.

[166] ADS Insight (2006), "European Coordination at the World Bank and International Monetary Fund: A Question of Harmony", p. 12.

Euro Area common policies and is the de-facto EFC for the euro area countries. Its members elect a President for a period of two years. The current EWG President is the Austrian Thomas Wieser who also chairs the EFC. The EWG activities have become increasingly relevant for the European countries in the IMF.[167]

The European MS's Executive Directors in the IMF closely follow the preparatory works in Brussels through different channels. IMF-related documents that were endorsed by the EFC are sent to the European MSs' Executive directors in the IMF. The documents provide guidance but are not binding for the Executive Directors. On the one hand, the SCIMF documents are taken seriously by Executive Directors as the EFC consists of senior officials that are directly accountable to ministers of finance. On the other hand, EFC positions are frequently intentionally left vague and leave room for interpretation for the Executive Directors in Washington.[168]

In Washington, representatives of the EU member states in the IMF, the ECB observer in the IMF and an European Commission official from the EU Delegation to the U.S. meet regularly in the EURIMF group. EURIMF was established in 1997 to facilitate an informal exchange of views and to better coordinate European positions within the IMF. While the EURIMF group meets regulalry, it does not have formal rules of how frequently it does so; it can meet four times per week or not meet at all for more than a week. But generally it meets more frequently than SCIMF. EURIMF spends much of its time trying to reach a common view on the country-specific issues in the context of Article IV consultations (i.e. economic surveillance). It is important to note that the IMF agenda drives the agenda of EURIMF and not the other way around.[169] Since 2007, the EURIMF meetings are chaired by the EURIMF President who is selected by consensus by the EU members at the IMF for a period of two years.[170] The EURIMF Presidency is currently held by Meno Snel from the Netherlands (his predecessors were the EDs of Germany and France). According to informal rules, the EURIMF President should come from a country that has an ED in the Executive Board and that is part of the euro area. EURIMF still has an informal character, which makes EU coordination dependent on personalities.[171] The EURIMF President and the Executive Directors from EU member states can also meet in a smaller group, but this happens only on rare occasions and when particulalry sensitive issues need to be discussed.[172] The mode of coordination with regards to EU positions depends on the relevance of the issue for common or coordinated policies.[173]

In regular IMF procedures, each Executive Director in cooperation with the other members of its constituency prepares a "national gray" and presents it in Executive Board meetings. The EURIMF President seeks to coordinate the "national grays" of the European Executive Directors (that however, often not only represent EU member states) before to Executive Board meetings. The discussions in the EURIMF meetings help the EURIMF Presidency to prepare a "Presidency statement" that s/he presents in the IMF Executive Board. "Presidency statements" are typically prepared for surveillance reports of EU member states or upcomig decisions on balance of payments support for non-euro area member

[167] Interview with Alternate to the IMF Executive Board, Washington, D.C., 30 June 2015.

[168] Interview with political advisors to European MS Executive Director, Washington, D.C., 17 June 2015.

[169] ADS Insight (2006), European Coordination, p. 10.

[170] The EURIMF Presidency thus does not reflect the EU Presidency.

[171] ADS Insight (2006), European Coordination, p. 10.

[172] Interview with European MS Executive Director, Washington, D.C., 21 July 2015.

[173] Jana Aubrechtová, Wouter Coussens, Georges Pineau (2010), "How to Reconcile EU Integration with the Governance of the International Monetary Fund", BIATEC Banking Journal, Vol. 18, No. 1, p. 7.

states, and they can also be issued on topics that are characterized by a strong convergence of views among EU countries.[174] "Presidency statements" do not exclude written statements by other European MS's Executive Directors. However, these "national grays" usually associate themselves with the "Presidency statements" through explicit reference to them. It is expected that the "national grays" do not convey messages that contradict the "Presidency statements".[175]

For some topics, including statements on Article IV consultations of the euro area and issues of specific relevance to the EMU such as exchange rates and macro-economic imbalances, the EU issues a sole statement ("buff"). "Buffs" are usually prepared by the EWG and the EURIMF and presented in the IMF Executive Board by the EURIMF President under his name and allow the euro area to speak with one voice in the IMF Executive Board.176 While the national Executive Directors do not issue "national grays" on these topics, they can express their support for the "buff" by means of oral statements in the IMF Executive Board meetings. "Buffs" have been frequently issued with regards to the EU/IMF programs for Latvia, a practice that has continued with regards to the EU/IMF programmes for Ireland, Portugal, Cyprus and Greece.

Over the years, EU coordination processes have intensified with more regular meetings and increasing input from Brussels and Frankfurt, although their timeliness is sometimes a challenge.[177] The formal coordination procedures in the framework of EURIMF are taken seriously by EDs, but informal contacts are also important in order to anticipate potential disagreements between EU MS's Executive Direcotors in advance.[178] Similarly, there are no formal relations between the Executive Directors and the ECB observer, but information exchange between them is significant, particularly through EURIMF meetings.[179]

According non-European Executive Directors within the IMF, the EU was able to ensure tight coordination in the Executive Board with regards to the EU/IMF programmes for Greece, Ireland, Portugal, and Cyprus.[180] Disagreements between the European MS's Executive Directors can sometimes occur with regards to positions on Article IV consultations.[181]

3.2.4 Discussions on a single EU seat in the IMF

In the current quota system of the IMF, the 28 EU member states encompass around 32% of the total IMF quota allocations and represent 31% of the vote in the IMF Board of Directors.[182] If the EU is able to establish a common position within the IMF, it carries substantial weight in decision-making. In fact, the EU is on most strategically important topics able to speak with "one voice" in the Executive Board, including discussions on quota and governance reform, IMF resources (bilateral loans, NAB, SDR) and the reform of the

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[174] Aubrechtová et al. (2010), How to Reconcile EU Integration, p. 8.

[175] Aubrechtová et al. (2010), How to Reconcile EU Integration, p. 8.

[176] Hodson (2011), The Paradox of EMU's External Representation.

[177] Aubrechtová et al. (2010), How to Reconcile EU Integration, p. 8.

[178] Interview with political advisors to European IMF Executive Director, Washington, D.C., 17 June 2015.

[179] Interview with political advisors to European IMF Executive Director, Washington, D.C., 17 June 2015.

[180] According to one observer, the need for cooperation and coordination among EU members was stronger at the IMF level than at the World Bank level, simply because the EU has in the past years become a client of the IMF. This was a new situation for the EU member states that have traditionally been donors in the IMF. Interview with IMF Executive Director of a BRICS state, Washington, D.C., 13 August 2015.

[181] Interview with IMF staff, Washington, D.C., 28 July 2015.

[182] IMF, "Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010", see http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf.

IMF's lending toolkit.[183] Following criticism that the Europeans are overrepresented in the IMF (e.g. by Japan and the U.S.), if implemented, the 2010 reform would reduce the combined quota of the EU countries. The reform is, however, not yet into force as it still has to be approved by U.S. Congress.

Prior to the 2010 reform decision, discussions were ongoing on a "EU seat" in the IMF. But there a are several obstacles to this option. First, IMF membership is limited to countries. To change this provision and allow the EU to become member in the IMF, 60% of IMF members that represent at least 85% of voting powers need to agree to this option. Second, the option for the EU member states to form one single constituency in which the EU is represented by a single Executive Director is currently still ruled out by the IMF's Articles of Agreement's provision which does not allow the election of governors representing more than 9%.[184]However, in the context of the 2010 reform, it was agreed to amend the AoA to "eliminate" the "default" election rules set forth in Schedule E and simply require the Board of Governors to adopt regulations (by a majority of the votes cast) that would govern the conduct of each regular election. Therefore, future changes of the 9% rule are legally possible. The amendment, however, is pending U.S. Congress ratification as the whole 2010 reform package.

The assumed advantages of a single EU seat in the IMF are controversial. Whilst there may be some advantages, some observers argue that a single EU seat in the IMF could lead to a polarization in the Executive Board with the U.S. because the EU would have a veto power on the most important decisions. This could undermine the cooperative nature of the IMF.[185] In addition, coordination of the European positions would be challenging as the EU is not a completely homogeneous area when it comes to economic policies and some governments could reject middle-ground viewpoints of the EU in the IMF.[186]

Some observers have argued that financial support for Greece would probably not have been approved earlier if there had been a single EU or euro area seat on the IMF Board, and that "there is not much more a single European representative could realistically have done to expedite agreement in the Executive Board over Greece that the EURIMF did not do." The heterogeneous preferences between national governments on international issues would make it more difficult for the EU to speak with one voice whether it has a single chair on the IMF Executive Board or not.[187] Finally, particularly the bigger member states might prefer to keep the current system of representation, which gives some visibility to national representatives.[188]

The perhaps the most effective alternative to a single EU seat would be to streamline existing channels in order to develop the most unified European economic voice possible. Dermot Hodson suggested that SCIMF could learn from the more effective EU Trade Committee by meeting more frequently at the deputy level – perhaps once a week – and reserving monthly meetings for members, so that the institution is able to coordinate better with EURIMF.[189]

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[183] Aubrechtová et al. (2010), How to Reconcile EU Integration, p. 8.

[184] See IMF (2011), Articles of Agreement, Schedule E.

[185] Lorenzo Bini Smaghi (2009), "A Single EU Seat in the International Monetary Fund", in Knud Erik Jørgensen (ed.), The European Union and International Organizations, London: Routledge, p. 68.

[186] One Europe One Vote?

[187] Hodson (2011), The Paradox of EMU's External Representation, p. 24.

[188] Lorenzo Bini Smaghi, "A Single EU Seat in the International Monetary Fund", p. 77.

[189] Hodson (2011), The Paradox of EMU's External Representation.

4. THE EVOLUTION OF EU-IMF COOPERATION IN THE CONTEXT OF THE TROIKA

The global financial crisis and particularly the euro area crisis have reshaped the relationship between the EU and the IMF. Prior to that, regular interactions between both institutions were usually pursued in the context of the IMF's Article IV consultations with the euro area as a whole. The relationship changed since several EU member states (Hungary, Latvia, and Romania) have received financial support from the IMF to help them overcome their fiscal and external imbalances. Later, four members of the Euro Area (Greece, Portugal, Ireland, and Cyprus) also accessed IMF resources.

As some authors have pointed out, also the IMF has benefitted from the involvement in Europe. Prior to these developments, the IMF's relevance came under question during a seemingly crisis-free era. Since 2002 no major crisis demanded the IMF's attention and countries that had borrowed large loans from the IMF in previous years (for example Brazil, Argentina, and Indonesia) gradually paid back their debts.[190] In 2007, the Group of Seven (G7) put the newly appointed managing director Dominique Strauss-Kahn under pressure to downsize the IMF. Strauss-Kahn in December 2007 accounced plans to cut staff, and following a downsizing in the next months, the IMF lost some of its most experienced staff.[191] But when the global crisis erupted in 2008, international policy-makers began to realize that they needed a bigger IMF, rather than a smaller one. As a result, the IMF in early 2009 started to again recruit economists and to increase its staff numbers.[192] In April 2009, the heads of government of the G20 summit in London pledged to treble the lending capacity of the IMF to $750 billion.

4.1. Brief overview of EU-IMF cooperation in EU countries

The first EU member state that received IMF assistance was **Hungary**. Following the Hungarian government's request for IMF assistance in October 2008, the European Commission made clear that it wanted to be involved in granting assistance to Hungary. EU Commissioner Joaquín Almunia reminded the Hungarian government that the EU has a loan facility (the Medium-term Financial Assistance) for EU member states undergoing balance-of-payments difficulties (which is not accessible to euro area countries).[193] EU and IMF in 2008 both concluded separate loan agreements with the Hungarian government that were separately approved by the IMF Executive Board and the Ecofin Council. But already during negotiations on the programmes, the EU and IMF missions in Hungary cooperated with each other, and in November 2008, the Ecofin Council declared that future loans to Hungary would be contingent on a satisfactory implementation of a programme with the IMF.[194] EU policy-makers thus looked to the IMF when it came to monitoring the conditions attached to the European loans. The approach towards Hungary served as an example for

[190] At the time, Turkey was the only big loan outstanding, and interest on it was the greatest source of revenue for covering IMF expenses. See Paul Blustein (2015), Over their Heads, pp. 4/5.

[191] Paul Blustein (2015), Over their Heads, pp. 7/8.

[192] Paul Blustein (2015), Over their Heads: The IMF and the Prelude to the Euro-Zone Crisis, Waterloo: Centre for International Governance Innovation, p. 8.

[193] Paul Blustein (2015), Over their Heads, p. 8/9.

[194] The arrangements had similar formal parameters but were not identical. However, conditions on the same item were agreed between the EU and the IMF to reduce the risk that the EU or the IMF are played off against the other. See Susanne Lütz and Matthias Kranke (2014), "The European Rescue of the Washington Consensus: EU and IMF Lending to Central and Eastern European Countries", Review of International Political Economy, Vol. 21, No. 2, p. 317.

further programmes for Latvia and Romania that were launched in 2009, and in which the involvement of the IMF in EU surveillance of the countries was more explicit than in the case of Hungary.

Latvia requested assistance from the IMF in early 2009. As a member of the European Exchange Rate Mechanism II (ERM II) Latvia had to keep its currency (the lat) fluctuating within a 15% band relative to the Euro before it could adopt the euro. Latvia also committed itself to a far more rigorous scheme of the lat of a plus/minus 1% band relative to the euro. The lat's peg to the euro became a divisive issue between EU and IMF staff during the discussions on programme design for Latvia.[195] Many members of the IMF staff believed that the lat was overvalued and should devalue substantially. But Latvian politicians and EU officials rejected the idea of abandoning the lat's tight peg to the euro.[196] At the end of the discussion, the IMF agreed to coordinated programmes with the European Commission and several Nordic European states that allowed Latvia to keep its currency policy. As a result, almost all measures in the programmes for Latvia were aimed at upholding the currency peg to the euro rather than allowing it to depreciate. The IMF put up a minority share of the overall loans to Latvia (less than one quarter, i.e. 7.5 million euros), and its influence over the terms diminished accordingly.[197] However, the IMF insisted that Latvia would have to agree to tough conditions in the programmes.[198]

Cooperation between the EU and the IMF gradually intensified during the implementation of the programme with Latvia. For example, the IMF was closely involved in the European Commission's review missions to Latvia, on the basis of which the EC decided to disburse further tranche of loans to Latvia. In the case of the programme for **Romania**, IMF and EC staff disagreed over how best to contain Romania's fiscal deficit.[199] By mid-2010 joint EU/IMF missions had become the (informal) rule for programme monitoring for Latvia, Hungary and Romania.[200] The Latvian case somewhat set a precedent for further cooperation in EU member states and particular in coordinated EU/IMF programmes for euro area countries.[201] The IMF had never before been involved in such intensive cooperation with a regional institution, like the EU. Already during the programme for Latvia, the IMF was relegated for the first time to the status of "junior partner" in a programme country. Some authors have even pointed out that the IMF has become a de-facto institution of the EU during the programmes.[202]

Greece was the first euro area country that in 2010 received financial support from the EU and the IMF. As a member of a monetary union no competitive devaluation was possible in Greece. For a long time, balance of payments crises like in Greece were deemed impossible in the euro area because it was assumed that solvent agents within a euro area country would always retain access to private funding. But in Greece (and also in Portugal, Ireland

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[195] Susanne Lütz and Matthias Kranke (2014), The European Rescue, p. 319.

[196] Paul Blustein (2015), Over their Heads, p. 10.

[197] Paul Blustein (2015), Over their Heads, p. 9-11.

[198] As a result, the Latvian government implemented deep cuts in public spending. See Lütz and Kranke (2014), The European Rescue, p. 319/320.

[199] Lütz and Kranke (2014), The European Rescue, p. 321.

[200] Dermot Hodson (2015), "The IMF as de facto Institution of the EU: A Multiple Supervisor Approach", Review of International Political Economy, Vol. 22, No. 3, p. 7. All three, Hungary, Latvia and Romania all concluded lending arrangements with the IMF under the Stand-by Arrangement (SBA) facility.

[201] See e.g. Paul Blustein (2015), Over their Heads, p. IV/2.

[202] Dermot Hodson (2015), The IMF as de facto Institution, p. 2.

and Cyprus), private capital flow reversals led to acute liquidity shortages in the banking system insofar that the ECB had to provide liquidity to banks. Since the countries concerned had lost access to private markets or faced mounting borrowing costs the respective governments had to seek external assistance to fill their financing gap. When the crisis hit Greece, the EU had no legal framework on which to base financial assistance or to cooperate with the IMF. This led to the activation of the EFSM and the creation of the EFSF, which was later transformed into the ESM.

In March 2010, the Euro Area heads of government agreed to offer loans to Greece but only as part of a package that involved "substantial" IMF financing (see below). For this purpose, a troika of officials from the European Commission, the IMF, and the ECB was established. The troika constellation was to ensure coherence of the three institutions vis-à-vis the applicant country. All three members of the troika follow their own procedural processes. The European Commission acted as agent of the Eurogroup in the troika and was entrusted with negotiating the conditions for financial assistance "in liaison with ECB" and "wherever possible together with IMF". The Eurogroup was politically responsible for approving the macroeconomic adjustment programmes including its conditions. As a member of the troika, the European Commission was involved in the negotiations with the governments of the recipient countries and signs the Memorandum of Understanding (MoU) on behalf of euro area finance ministers. It was also involved in the troika's review of the implementation of the economic adjustment programs. The role of the European Commission in the troika was controversial: The Eurogroup is not an official institution of the EU and the provision that the European Commission (guardian of the Treaty) also acts as an agent of the Eurogroup is not specified in EU law.[203] The Eurogroup also asked the ECB to become part of the troika as a provider of expertise. In addition, the ECB provided Greece with Emergency Liquidity Assistance (ELA) to ensure that its banks, through the Greek central bank, maintain liquidity. ELA was created to bridge transitional and short term liquidity shortages. In this vein, the ECB de facto made ELA disbursement dependent on the implementation of the conditions of the EU/IMF programme.

Following negotiations between the Greek government and the EU/IMF troika in April 2010, a programme of €110 billion loans to Greece was initiated (of which €30 billion were provided by the IMF).[204] The loans were to be doled out in amounts of a few billion euros every three months to ensure that the Greek government was complying with the conditions of the troika programme.[205] The European Commission and the IMF agreed to monitor different elements of one single programme for Greece through quarterly reviews. The troika constellation thus allowed the euro area members to draw on surveillance of both European Commission and IMF staff. The troika held joint meetings with national authorities and typically released a joint memo in which they assessed compliance with loan conditions. The EU and IMF members remained, however, accountable to different principals as the IMF Executive Board and the Ecofin Council took their own decisions on

[203] See e.g. European Parliament (2014), "Report on the Enquiry on the Role and Operations of the Troika (ECB, Commission and IMF) with regard to the Euro Area Programme Countries", Committee on Economic and Monetary Affairs, Doc. 2013/2277(INI), Brussels: European Parliament, para. 50.

[204] According to the rapporteurs of the European Parliament, it is unknown to what extent the recipient countries (Greece, Ireland, Portugal and Cyprus) have been able to influence the outcome of the negotiations. The rapporteurs also criticized that there was a lack of transparency in the MoU negotiations. See Committee on Economic and Monetary Affairs (2014), Report on the Enquiry, para. 30.

[205] The loan particularly enabled Greece to continue paying interest and principle on its existing debts, cover salaries and pension obligations, and set up a fund to protect Greek banks against collapse. Many critics, however, questioned if this was adequate to restore Greece's economic and financial health.

disbursing the tranches of the loan instalments to the programme countries. From the European side, the EC's role was to report on compliance while the euro area members decided on further disbursement. The IMF's involvement in the programme allowed the EU to draw on the financial resources and expertise of the IMF while retaining a say over the conditions attached to the overall package and the assessments of its implementation. **The troika model** was also used for programmes launched with **Ireland** (November 2010), **Portugal** (May 2011), and **Cyprus** (March 2013).[206]

IMF resources for European countries were provided through different funds, including Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility (EFF). In the first programme of May 2010, the IMF granted Greece a €30 billion loan under a SBA. The IMF provided the loans to Ireland (€22.5 billion, concluded in December 2013) and Portugal (€26 billion, concluded in June 2014) under the EFF. Following the conclusion of their programmes, both countries entered into Post-Programme Monitoring (PPM) of the IMF. Ireland was the first euro area country to successfully complete a macroeconomic adjustment programme with the IMF and was able to return to the financial markets for funding.

4.2. Key reasons for the IMF involvement in programmes for Euro Area countries

IMF involvement in programmes for euro area countries was initially opposed by many EU policy-makers who claimed that the EU should be able to solve problems in the euro area without external help. As such, an involvement of the IMF was regarded as a sign of weakness of the European institutions. Initial opponents of IMF involvement in euro area countries included ECB President Jean-Claude Trichet, French President Nicolas Sarkozy, European Commission President José Manuel Barroso and EU Commissioner for Economic and Monetary Affairs Olli Rehn, Eurogroup President Jean-Claude Juncker, German Finance Minister Wolfgang Schäuble, and the governments of several member states (including Finland, the Netherlands and Italy). German chancellor Angela Merkel, however, in March 2010 made clear that she regarded IMF involvement as inevitable in the short-term.[207] In the end, there were several reasons that facilitated the involvement of the IMF in the programmes for the euro area countries:

- *A lack of credibility of the EU's economic governance and a lack of confidence in the European Commission*: Following its inability for years to enforce EU member states to reduce their budget deficits and its failure to force EMU members to comply with the rules of the European Stability and Growth Pact, the European Commission lacked credibility to monitor the programmes for crisis countries in Europe without external help.[208] The European Commission also lacked experience in handling

[206] Ireland and Portugal received loans from the European side through the European Financial Stability Facility (EFSF). In December 2010, the EU leaders agreed to replace the temporary EFSF with the permanent European Stability Mechanism (ESM). The ESM Treaty, which entered into force in September 2012, states that the EC, in liaison with the ECB and, "wherever possible, together with the IMF", shall be entrusted with monitoring compliance. The EU thus "delegated" the IMF to monitor the compliance with conditionality of European loans, also in cases were financial contributions from the IMF are not sought. This model was already used in the EU's "Financial Sector Adjustment Programme" with a €100 billion package of loans to Spain in June 2012.

[207] See e.g. Paul Blustein (2015), Laid Low: The IMF, the Euro Zone and the first Rescue of Greece, Waterloo: Centre for International Governance Innovation, pp. 5/6.

[208] In reaction to these failures, the member states in March 2012 signed the (intergovernmental) "Fiscal Compact" that introduced fiscal consolidation in national constitutions, and the "Six-Pack" and "Two-Pack" to strengthen fiscal consolidation (including alarm mechanisms to detect macroeconomic imbalances and apply

national fiscal problems and programme designing. Given these circumstances, it was unclear how the financial markets would react in case of a sole European programme for Greece.

- *The risk of "moral hazard" in case of a sole EU involvement*: Several leading European politicians, including German chancellor Merkel and French President Sakozy, frequently declared that a default and an exit of a member from the euro area had to be prevented by all means. That gave the crisis countries confidence that the European partners would do everything to support them. As a result, many observers feared that compliance with strict conditionality might be at risk. The involvement of the IMF was believed to guarantee that conditionality would be adhered to. Particularly the German public expected strict conditionality for Greece and expected that it would be enforced by arbiters with recognized neutrality and competence (like the IMF).[209]
- *A high likelihood that the loans would be repayed*: Throughout the IMF's history, the default rate of IMF lending was very low. The IMF also enjoys a preferred creditor status, i.e. its loans will be repaid prior to all other creditors.[210] IMF involvement in the programme fo Greece therefore promised that the loans would be repayed to both, the IMF and the European creditors.
- *U.S. support for EU/IMF programmes*: The U.S. government feared that the Greece crisis could turn into a European crisis and spread to the U.S. and therefore supported IMF loans to Greece. In cooperation with the European Executive Directors in the IMF, the U.S. Executive Director convinced the other members of the Executive Board to launch programmes for the euro area countries.
- *Support within the IMF leadership*: Dominique Strauss-Kahn, the IMF managing director, wanted the IMF to participate in resolving the crisis in Europe and to bring the IMF back into the centre of the global economy.[211] He therefore strongly supported a EU/IMF programme for Greece. However, Strauss-Kahn was also accused of using his position in the IMF to further his political ambitions to win the presidential election in France in 2012.

4.3. Consequences for the IMF due to its involvement in Euro Area programmes

Its involvement in the programmes in the euro area countries was not without consequences for the IMF as it violated some of its principles and practices:

First, the IMF has general limits on the amount that it will lend to applicant countries. An IMF loan usually depends on applicant country's quota in the IMF. In the past, the typical loan to quota ratio averaged 300%. This ratio was already exceeded when the IMF provided a loan to South Korea in the late 1990s, which amounted to about 2,000% of South Korea's IMF quota. The first IMF loan to Greece was equivalent to 3,200% of Greece's IMF quota and was by far the highest loan to quota ratio in the IMF history. The IMF argued that it

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corrective sanctions). These rules were criticized in an IMF staff report of May 2015 as "too rigid, outdated and complex." See EU Observer (2015), "IMF urges EU to overhaul 'outdated' debt rules", 31 May 2015.

[209] See e.g. Paul Blustein (2015), Laid Low, p. 6.

[210] States that have in the past failed to repay their loans to the IMF at due date include Iraq, Sudan, Zimbabwe, Haiti, Somalia, Bosnia and Herzegovina, and Afghanistan. Greece joined these countries in July 2015.

[211] According to Dominique Strauss-Kahn, it would have been lethal for the IMF if it would have been left out in resolving the crisis in the Euro Area countries. See Paul Blustein (2015), Laid Low, p. 3.

had to exceed the typical quota ratio and to relax its principle as Greece presented an "exceptional circumstance" that could have detrimental impact on and a systemic risk for the global economy if not addressed properly. For example, IMF managing director Dominique Strauss-Kahn argued that a financial collapse in Greece would drag on the whole euro area and put the European financial system at risk. According to this logic, extraordinary circumstances justified exceptional measures for Greece.

Second, following the experience with Argentina, to which the IMF borrowed huge loans but which defaulted a few months later, the IMF Executive Board in 2003 established the informal principle that there must be a high probability that a country that receives a large loan has a sustainable public debt. If this was not the case, the IMF would insist that the debt was restructured (also called a "haircut"), which would ensure that the burden of loss would fall on the private creditors instead of the taxpayers. The rule has not been followed in the first programme for Greece in 2010 which did not include debt restructuring.

Third, according to its mandate, the IMF loans are usually only disbursed to overcome short-term balance of payments difficulties but not to solve deeper structural economic problems or financing of bank recapitalisations in the applicant countries. Greece and Portugal, however, were faced with deep structural problems. Particularly the programmes for Greece were therefore highly controversial within the IMF.

Due to the violations of its principles and practices, the EU/IMF programme to Greece in 2010 was controversial within the IMF. Internal divisions became apparent during a contentious IMF Board meeting on 9 May 2010, during which reportedly nearly a third of the Board's members, representing more than 40 non-European countries, raised major objections to the programme design. Many critics argued that the programme placed all the burden of a painful adjustment on the Greek citizens while asking nothing of its European creditors. The critics therefore wondered why debt restructuring was not being further considered by the IMF and the EU and if it was wise to impose austerity on Greece without requiring its creditors to accept losses. For example, the Brazilian Executive Director Paulo Nogueira Batista, who represented a constituency of eleven countries from Latin America, warned that the programme for Greece was not well thought and bore high risks that Greece would not be able to repay its loans to the IMF. Also Argentinian Executive Director Pablo Andres Pereira argued that the IMF risked to merely postponing a Greek debt default through the programme. The Swiss Executive Director Rene Weber criticized the growth projections for Greece of the programme as 'too high and unrealistic'. Similarly, the Indian Executive Director Arvind Virmani argued that the scale of the fiscal adjustments to be required of Greece would be "a mammoth burden that the economy could hardly bear."

Also parts of the IMF staff in 2010 supported debt restructuring for Greece, and argued that the interests of the European creditors were placed above those of Greece.[212] But this view was rejected by EU policymakers, the IMF Executive Directors from the euro area countries, and the IMF managing director.[213] Also the European Department in the IMF apparently believed that the Greece programme would be effective in restoring the health of the Greek economy and financial sector.[214] In the end, the EU member states showed a capacity for

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[212] See e.g. Wall Street Journal (2013), "Past Rifts Over Greece Cloud Talks on Rescue: Confidential Documents Reveal Deep Divisions at IMF Over 2010 Greek Bailout", 7 October 2013.

[213] Particularly French and German banks were exposed to Greek debts. The Brazilian Executive Director therefore argued that the Greece programme might be seen "as a bailout of Greece's private debt holders, mainly European financial institutions." See Paul Blustein (2015), *Laid Low,* 15.

[214] Paul Blustein (2015), Laid Low, p. 13.

collective action during the crisis in Greece.[215] But although the IMF in 2010 accepted the "European" approach towards Greece, disagreement between the EU and the IMF on right approach towards Greece remained. For example, an IMF staff report of May 2013 argued that the EU had done little to stimulate Greece's economy and considered that an upfront debt restructuring would have been better for Greece, although "this was not acceptable to the euro area partners."[216] The report also concluded that there was a lack of division of labour as the European Commission insisted on being "involved in all aspects of the program to ensure conformity with European laws and regulations".[217] In response to the critical IMF report, Olli Rehn, then EU Commissioner for Economic and Monetary Affairs, criticized the IMF for its attempts to "wash its hands and throw the dirty water on the Europeans."[218] Debt restructuring for Greece finally came in 2012 when investors in Greek bonds had to accept haircuts that significantly reduced the value of their holdings.[219]

4.4. Conditionality in EU/IMF programmes for the Euro Area countries

The programmes for the euro area countries aimed to create the conditions in the receiving countries to regain market access. To achieve this objective, the EU and IMF programmes have attached conditions to the disbursement of the loans. It is difficult to identify which of the three institutions – the IMF, the Eurogroup, the Commission and the ECB – has been the strictest promoter of conditionality in the programmes, which also raises questions about accountability and oversight. Conditions are initially agreed within the Eurogroup, but also the ECB gives recommendations and thus also exercises pressure on the Eurogroup. The ECB recommendations were aimed to calm the financial markets, but according to some observers, ECB recommendations at times went beyond the scope of the ECB responsibility. For example, the ECB made recommendations on VAT increments, pension reforms, labour market reforms and liberalisation of local public services in some of the euro area programme countries.[220] ECB officials have frequently rejected such criticism, arguing that the ECB mainly had an advisory role in the troika and did not bear political responsibility for the programmes.[221]

Some observers have pointed out that the IMF, due to its experience with lending programmes, has been much more circumspect about fiscal austerity than the EU in the Greece programmes and more flexible in its lending policies.[222] As a result, officials from South Korea argued that austerity measures imposed in its IMF programme in 1997/1998 had been more draconian than those in Greece, and that the conditions attached to the Greek loans would be lenient by the IMF's usual standards. Moreover, this leniency was reflecting the substantial voting power of European countries on the IMF Executive Board.[223] Also according to other non-EU members of the Executive Board, conditionality

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[215] Hodson (2011), The Paradox of EMU's External Representation, p. 27.

[216] IMF (2013), Greece: Ex Post Evaluation of Exceptional Access Under the 2010 Stand-by Arrangement, Washington, DC: IMF Country Report No. 13/156, para. 57.

[217] IMF (2013), Greece: Ex Post Evaluation, para. 62.

[218] See e.g. EU Observer (2013), "Rehn in War of Words with IMF", 7 June 2013.

[219] Critics argue that the restructuring of Greece's private debt came too late. See e.g. Paul Blustein (2015), Laid Low, p. 17.

[220] Green European Journal (2014), "Who has the Power? The ECB Role in the Euro-Crisis", 26 February 2014.

[221] See Frankfurter Allgemeine Zeitung (2013), "Eurokrise: EZB unzufrieden mit Rolle in der Troika", 4 March 2013.

[222] Lütz and Kranke (2014), The European Rescue, p. 310.

[223] Financial Times (2010), "Asia sees Double Standards in IMF Greek Rescue", 30 April 2010.

for Greece has been light in 2010.[224] Conversely, according to the "European Network on Debt and Development", the number of conditions the IMF attaches to its loans has grown in recent years, and conditions are today often applied in politically contentious areas such as public-sector wage cuts or private-sector reform.[225] Rather uncontroversial is the fact conditionality has become more detailed in Greece over time while in the programmes for Ireland, Portugal and Cyprus, the level of detail stayed broadly constant.[226]

In fact, conditionality in Greece has become increasingly more detailed after the troika had realized that implementation of conditionality was not effective, in part because of the lack of specific guidance to a weak and dysfunctional public administration and "languishing political capacity."[227] Apparently, the troika in 2010 overestimated the effectiveness of the Greek government machinery to follow through on policy recommendations and priorities.[228] The first programme for Greece was therefore not robustly designed and the troika assumptions of economic growth in Greece were amply proved wrong.[229] In contrast, increasing conditionality was not deemed necessary in the case of Ireland where the government rigorously implemented the fiscal plans outlined in the EU/IMF programme. The programme included relatively realistic assumptions on economic growth[230], which was not given in the case of Greece. In the case of Ireland, the troika set the macroeconomic targets and let the Irish government decide on the measures necessary to achieve these goals. The programme for Ireland was thus characterized by a high degree of domestic ownership, especially when compared to the one for Greek.[231]

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[224] Interview with political advisor of IMF Executive Director, Washington, D.C., 30 July 2015.

[225] Jesse Griffiths and Konstantinos Todoulo (2014), Conditionally Yours: An analysis of the Policy Conditions attached to IMF Loans, Brussels: European Network on Debt and Development.

[226] Jean Pisani-Ferry, André Sapir and Guntram B. Wolff (2013), EU-IMF Assistance to Euro Area Countries: An Early Assessment, Brussels: Bruegel, p. 74.

[227] André Sapir, Guntram Wolff, Carlos de Sousa, and Alessio Terzi (2014), The Troika and Financial Assistance in the Euro Area: Successes and Failures, Brussels: European Parliament, p. 16/17; 27.

[228] André Sapir et al. (2014), The Troika and Financial Assistance, p. 26.

[229] André Sapir et al. (2014), The Troika and Financial Assistance, p. 30.

[230] André Sapir et al. (2014), The Troika and Financial Assistance, p. 33.

[231] André Sapir et al. (2014), The Troika and Financial Assistance, p. 35.

5. THE GLOBAL DIMENSION: PERCEPTION OF EU COORDINATION IN THE IMF AMONG NON-EU STATES

Basically all non-EU members in the IMF agree that the EU usually acts fairly coherent in the Executive Board. Moreover, EU coordination is almost expected from non-EU members in the Executive Board.[232] In Board meetings, the position that is brought forward by the EURIMF President is usually identified by non-EU members as the "EU position". The other MS's European Executive Directors' in the Board usually associate their positions with the position of the EURIMF President, although there are sometimes nuances in their statements.[233] European MS's Executive Directors also sometimes have different positions on topics that are strategically not very relevant for the EU, for example in Board discussions on Article IV consultations with non-EU countries. Differences can appear on the economic assessment of low income countries and the need for structural reforms in those countries. Here, the European MS's Executive Directors of the EU countries with former colonies sometimes express positions that are not necessarily shared by other European MS's Executive Directors. On these topics, the Executive Directors have apparently more leeway to take a personal decision than on topics that are strategically important for the EU or the euro area as a whole. For the latter, non-EU members in the Board assume that the European Executive Directors receive rather narrow guidance on how to vote from their capitals and Brussels respectively.[234]

Most non-EU members in the IMF already regard the EU as a single power block in the Executive Board. However, they also criticize that the EU has disproportionate influence in the IMF which does not reflect the EU's role in global trade and the global economy. As a result, even U.S. officials during the 2010 reform negotiations argued that the combined quota of the EU member states in the IMF should be reduced (which was then part of the reform package). EU coordination, coherence and power has been perceived as particularly strong with regards to the programmes for euro area countries. Particularly the programmes for Greece have, however, also been regarded critical by non-EU members within the Executive Board (see above) and outside observers. Many of these critics argued that the IMF had succumbed to pressure from powerful European policy-makers which resulted in an erosion of the IMF's credibility as an independent, neutral arbiter of economic problems.[235] Particularly representatives of the BRICS in the Executive Board argued that in the case of Greece, initial debt sustainability assumptions were flawed and that many mistakes were done, including within the IMF that was "tricking itself".[236] If a new programme will be launched for Greece in 2015, the BRICS states aim to ensure that IMF rules are upheld, which will probably require another haircut of Greece's debt.[237] A major programme comparable to the 2010 programme would also not be feasible due to the financial constraints of the IMF (as a result of the stagnating reform that would have increased the financial resources of the IMF); while the IMF would rather provide technical

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[232] Interview with IMF Executive Director from a BRICS state, Washington, D.C., 13 August 2015.

[233] Interview with political advisor of IMF Executive Director, Washington, D.C., 30 July 2015.

[234] Interview with IMF Executive Director of a BRICS state, Washington, D.C., 13 August 2015.

[235] Paul Blustein (2015), Over their Heads, p. IV. For example Susan Schadler argued that the IMF bowed to the "exigencies of European politics." See Susan Schadler (2012), "The IMF has been cut Adrift", The Guardian, 7 November 2012.

[236] Interview with political advisor of IMF Executive Director of a BRICS state, Washington, D.C., 5 August 2015.

[237] Interview with IMF Executive Director of a BRICS state, Washington, D.C., 5 August 2015.

expertise, the European institutions would have to provide the necessary financial resources.[238]

But representatives of the BRICS in the Executive Board also argue that the IMF vast involvement in Europe in the past years is "nothing special". The IMF was also heavily involved in South America in the 1980's and in Asia and Russia in the 1990's. According to an Executive Director that represents one of the BRICS states (among others), the IMF "simply gets involved where its support is needed, and in the past years, that happened to be in Europe."[239] Also the fact that Greece's access to IMF resources was much larger than was previously the case for other countries that received IMF loans is not regarded as particularly critical; it is rather understood as a result of the integration of the global financial markets in which effective crisis management efforts require large amounts of financial resources.[240]

Non-EU members of the IMF doubt that the EU member states would be able to agree on a single seat for the EU because this option would not bring much advantage to the EU states and because a constituency that is shared by all EU member states would be too difficult to manage.[241] This is more a theoretical discussion as this option is difficult given the current IMF's rules (see above). To prevent a future situation in which the EU members could push through their interests in the IMF, the former Canadian finance minister Jim Flaherty in 2012 proposed that in case that a euro area member will request IMF assistance, members of the IMF Executive Board representing the euro area countries should be expected to refrain from voting.[242]

Many IMF members are frustrated that the IMF's governance and quota reform got stuck. Particularly the BRICS states and other emerging countries feel unappreciated and underrepresented in present IMF structures.[243] The IMF governance structure has in the past tried to reflect the global economy. This is no longer the case as U.S. Congress has yet not approved the 2010 reform. But even if this would happen, the new quota system would not reflect the global economy, and another reform round would be necessary in the near future. Given the current constellation in U.S. Congress, such a reform is highly unlikely in the coming years.[244] The BRICS states also regard the 2010 reform as rather modest outcome because European countries and the U.S. had used their institutional power within the IMF to block a more generous reshuffling of voting power within the organisation. According to some observers, the EU member states benefit from the status quo and the current quota system that determines power within the IMF.[245] They therefore do not put sufficient pressure on the U.S. government to persuade Congress to approve the reform.

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[238] Interview with IMF Executive Director of a BRICS state, Washington, D.C., 13 August 2015.

[239] Interview with IMF Executive Director of a BRICS state, Washington, D.C., 5 August 2015.

[240] Even the current programmes with Bangladesh and Ukraine are huge for the IMF with regards to the ratio of these countries IMF quota and their IMF loan arrangement. Interview with political advisor of IMF Executive Director of a BRICS state, Washington, D.C., 5 August 2015.

[241] Interview with political advisor of IMF Executive Director, Washington, D.C., 30 July 2015.

[242] CBC News (2012), "Flaherty affirms no Eurozone Bailout Funds from Canada", 20 April 2012.

[243] Interview with political advisor of IMF Executive Director of a BRIC state, Washington, D.C., 5 August 2015. For example, Turkey holds 0.6% of the quota at the IMF, but according to recent statistics and economic indicators, Turkey should have a 1.1% quota share.

[244] Interview with IMF Executive Director of a BRIC state, Washington, D.C., 5 August 2015.

[245] To show good will that the EU member states support a reform of the IMF governance structure, Belgium abandoned its constituency seat and joined the constituency led by the Netherlands. The "free" seat has been taken over by Turkey.

For example, EU policy-makers could use G7 summits to increase pressure on the U.S. government.[246] The BRIC states in the IMF are also sometimes irritated that EU member states are unwilling to provide more funds to IMF and thus to expand the financial resources of the IMF.[247]

As a result of the lack of reform progress in the IMF, interest in the IMF work is visibly decreasing in the capitals of the BRIC states.[248] The BRICS and other emerging countries have started to develop alternative options to reduce their dependency on the IMF. This includes the Contingent Reserve Arrangement (CRA) of $100 billion that is designed to help protect the BRICS countries against short-term liquidity pressures.[249] However, the CRA should not be understood as a competitor but rather as a complementary arrangement to the IMF. This is illustrated in the "BRICS Fortaleza Declaration" of July 2015 which stipulates that any country that receives loans through the CRA also has to agree on a programme with the IMF if the funds for the recipient country reach a certain threshold.[250] Indeed, the BRICS, similar to the EU, have a specific interest in using the technical experience of the IMF in programmes.[251] While the BRICS have not turned their back on the IMF in the face of lack of reform progress[252], they have started to coordinate more intensively within the IMF in order to "increase their chances of getting heard within the IMF".[253] But the importance of this coordination should not be over-emphasized as it remains informal and irregular and conditional upon a clear convergence of views and interests among the BRICS. Coordination among the BRICS is thus not as structured as the EU member states' coordination in EURIMF.[254] Most coordination among the BRICS is pursued with regards to discussions on IMF quota and governance reform, a topic that is also usually prominently discussed during BRICS summits. The offices of the BRICS' members in the IMF, however, receive no particular guidance or directions from their capitals regarding coordination and cooperation within the IMF. Rather, the offices study the statements of BRICS summits and try to act accordingly within the IMF.[255]

[246] Interview with IMF Executive Director of a BRIC state, Washington, D.C., 5 August 2015.

[247] Interview with political advisor of IMF Executive Director, Washington, D.C., 30 July 2015.

[248] Interview with IMF Executive Director of a BRIC state, Washington, D.C., 5 August 2015.

[249] The BRICS in 2015 also established the New Development Bank (NDB) which is a somewhat similar arrangement to the World Bank. In contrast to IMF and World Bank arrangements, however, each BRICS country holds an equal number of shares and equal voting rights in decision-making within the NDB, and none of the countries will have a veto power. The NDB will allow new members to join the arrangement but the BRICS capital share cannot fall below 55%. See e.g. Niall Duggan (2015), "BRICS and the Evolution of a New Agenda within Global Governance", in: Marek Rewizorski (Ed.), The European Union and the BRICS: Complex Relations in the Era of Global Governance.

[250] See "Treaty for the Establishment of a BRICS Contingent Reserve Arrangement: Fortaleza, July 15", Art. 5, 8 and 12.

[251] Interview with IMF Executive Director of a BRICS state, Washington, D.C., 13 August 2015.

[252] Dries Lesage, Peter Debaere, Sacha Dierckx, Mattias Vermeiren (2015), "Rising powers and IMF Governance Reform", in: Dries Lesage and Thijs Van de Graaf (Eds.), Rising powers and Multilateral Institutions, pp. 153-174.

[253] Interview with political advisor of IMF Executive Director of a BRICS state, Washington, D.C., 5 August 2015.

[254] Interviews with IMF Executive Directors of BRICS states, Washington, D.C., 5 August 2015 and 13 August 2015.

[255] Interview with political advisor of IMF Executive Director, Washington, D.C., 5 August 2015.

6. CORE ASPECTS OF TRANSPARENCY, ACCOUNTABILITY AND LEGITIMACY

Two dimensions of transparency, accountability and legitimacy have to be kept in mind when assessing EU-IMF relations. Firstly, these three issues related to 'good governance' should be explored in relation to the IMF's own status and policies as both the main organisation for global economic governance and a key partner for the EU. Secondly, these three aspects of good governance also need to be analysed in relation to the EU's relationship and cooperation with the IMF. The latter aspect includes both issues related to transparency and accountability of decision-making among EU institutions and member states as well as issues of transparency, accountability and legitimacy when it comes to EU policies within the IMF or joint EU-IMF actions and policies in the context of the troika.

The following sections shall explore these two distinct, but interrelated perspectives in turn.

6.1. Transparency and Accountability Issues related to the IMF

Give its long-standing position as the prime global organization for international financial and economic governance, which routinely affects a wide range of domestic economies and policies, there has been a sustained debate on the IMF's transparency, accountability and legitimacy.

6.1.1 IMF Accountability

In democratic governance systems, the aim of "accountability" is to ensure that political actions are predictable, non-arbitrary, and procedurally fair, that decision makers are answerable to parliaments and therefore to civil society, and that rules and parameters on the exercise of power are enforced. In the IMF, the basic structure of accountability works through representatives of governments, but the chain of representation is long and imperfect, as the links between most member governments (the ones representing the people) and the IMF are extremely weak. Most member governments are too far removed from the workings of the Executive Board, which as argued by some observers, also exercises too little control over the staff and management. In addition, only the largest member countries are directly represented in the Executive Board, and as a consequence, most national governments have a very weak link to deliberation and decision-making within the confines of the Board's constituencies. Interests of executive directors may also be a factor against accountability, taking into account they sometimes have a dual role as officials of the IMF as well as representatives of their member governments. Going even further, the Fund has a rather opaque process by which it appoints its Managing Director, to whom all staff are accountable and who wields significant influence in the Executive Board. The only political compromise in this respect is that the head of the World Bank is an American and the head of the IMF is a non-American (in practice, a Western European)[256]. Yet, while this informal "division of labour" might have been acceptable in the immediate aftermath of the Second World War, this 'understanding' seems no longer sensitive to changing global economic realities and the rise of emerging economic powers.

Regarding accountability of International Organizations, the International Law Association has identified three main principles that directly affect the IMF and its processes[257]:

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[256] Unelected Government: Making the IMF and the World Bank More Accountable. Source: http://www.brookings.edu/research/articles/2003/03/spring-globaleconomics-woods.

[257] International Law Association. Berlin Conference (2004) Accountability of International Organizations. Final Report.

1. The principle of good governance (or of good administration), including the following elements:

- transparency in both the decision-making process and the implementation of the ensuing institutional and operational decisions;
- a large degree of democracy in the decision-making process;
- access to information open to all potentially concerned and/or affected by the decisions at stake; the well-functioning of the international civil service;
- sound financial management;
- and appropriate reporting and evaluation mechanisms

2. The principle of supervision and control:

- parent organs should control and supervise subsidiary organs
- there should be periodic evaluation of the activities of the International Organization

3. The principle of stating the reasons for decisions or a particular course of action:

- organs of an IO should state the reasons for their decisions on particular courses of action
- non-plenary organs should reflect in their periodic reports information of a non-confidential nature forming the basis of their decisions. [258]

To face critics and achieve principles such as the ones proposed by the ILA, the IMF has introduced new reforms and it is now (or it is supposed to be) accountable not only to its 188 member states, but also more sensitive to the views of

- Intergovernmental groups such as the G-20 and the G-8
- Civil society organizations: a 'Guide for Staff Relations with Civil Society Organizations' was distributed to IMF staff by the Managing Director in 2003 and published on the IMF website
- Media: IMF management and senior staff communicate with the media on a daily basis. Additionally, a bi-weekly press briefing is held at the IMF Headquarters, during which a spokesperson takes live questions from journalists
- Academic community: IMF staff at all levels frequently meet with members of the academic community to exchange ideas and receive new input
- the Independent Evaluation Office

In addition, the IMF has also developed its own Ethics Office, an independent arm of the Fund established in 2000 to provide advice and guidance to IMF staff.[259] As mentioned above, the establishment of the IMF's Independent Evaluation Office in 2001 also aimed at creating more objective, regular reviews of IMF practice.

Yet, despite these advances, the IMF lacks - in a similar manner as many globally operating international organizations - fully developed channels of accountability. One way to increase accountability can be organized at the member states' legislature level. In other words, national parliaments can question and review the work of 'their' Executive Directors,

[258] Unelected Government: Making the IMF and the World Bank More Accountable. Source: http://www.brookings.edu/research/articles/2003/03/spring-globaleconomics-woods.

[259] International Monetary Fund: 'Accountability', available online at http://www.imf.org/external/about/govaccount.htm.

Governors and delegates active in the IMF. When it comes to the international staff of the IMF, however, accountability questions are connected to wider, persistent questions about the accountability and governance of international organizations in general. Because of its global reach and high level of domestic intrusiveness (through conditionality of its loan programmes) the IMF will, however, continue to be exposed to stronger scrutiny, particularly among NGO and think tank communities.

6.1.2 IMF Transparency

It was not until the late 1980s that institutional transparency began to be high on the agenda of the IMF. Until then, the Fund gave more importance to the principle of confidentiality in relation to its assessments and with its country members and saw itself as a technical institution with little need to explain its work to the public. However, in the 1990s and the IMF's far-reaching involvement in the Latin American debt crisis, transparency became a key issue and the IMF began to confront one of its main problems: balancing transparency and accountability with confidentiality. In recent years there has been a general trend that most documents related to Article IV consultations are published, as well as the Public Information Notices (PINs). The publication of the staff reports on the annual Article IV consultations with members is becoming an accepted practice to enhance transparency and accountability. In 1998, the Executive Board also began to commission external evaluations of key activities of the institution such as surveillance, IMF research, the ESAF, and the IMF's budgetary process; a major further step to strengthen IMF accountability was taken in early 2000 with the decision to establish the Independent Evaluation Office (IEO).

In past years the IMF has been working to become more transparent.[260] Core initiatives and steps taken include:

2001: The Independent valuation Office (IEO) was established. It operates independently from IMF management and its reports are publicly available. However, the director of the IEO is elected by the Executive Board of the IMF

2013: -90% of countries published the Article IV consultation staff report

-91% of countries that used Fund resources allowed publication of their letters of intent, memoranda on economic and financial policies, or technical memoranda of understanding.

-95% of countries published the Article IV report when it was combined with an assessment of a Fund-supported program.

-96% of member countries agreed to the publication of a press release which provides the IMF Executive Board's assessment of the member's macroeconomic and financial situation.

Furthermore, each year the IMF reviews, including analyses from agencies and civil society organizations assess:

- The relevance and utilization of the Fund's research
- The Fund's performance in the run-up to the crisis
- The Fund's interactions with member countries

[260] International Monetary Fund (2015) Factsheet 'Transparency'. Avalable online at http://www.imf.org/external/np/exr/facts/trans.htm.

In parallel with the Annual Meetings of the IMF and WB, a Civil Society Policy Forum is organized jointly with the World Bank. In addition, the IMF encourages its member countries to make their policies and data public through its transparency policy, which designates the publication status of most categories of Board documents as "voluntary but presumed." [261]

In 2013, the IMF conducted a 'Transparency Review' of its transparency policies and reforms.[262] The main objective and scope of the review related to the IMF's confidentiality and openness policies (i.e. public access / publications) related to the findings of its main activities (i.e surveillance reports, Board meeting minutes). The review concluded that while more could be done, the IMF is already as transparent as other comparable financial institutions and organizations (in particular the World Bank). The IMF has a time-lag policy for the publication of the IMF's Board minutes – at present five years.[263] This is indeed a much more transparent policy than, for example, the European Council or European Central Bank, which rarely disclose meeting minutes. Yet, the report also pointed towards continued tensions between full transparency on the one hand and the requirement of 'candid conversations' in the Executive Board on the other.[264] Finally, cause for concern has been the increase of the use of redactions and deletions prior to the publication of Article IV reports since the outbreak of the financial crisis. According to the report 17 % of all IMF staff reports had been redacted during the period under investigation. [265]

However, far more fundamental concerns about transparency and accountability do not relate to the IMF's publication and communication activities, but rather to its decision-making. As alluded to in previous sections of this paper, IMF governance follows both formal and informal rules and procedures. While decision-making related to any fundamental aspects (i.e. increase of quota, new members, governance reform) are guided by the voting-rules and formal rules, more day-to-day management decisions (such as the granting of loans or design of programmes) often follow the rather informal principles of 'consensus' in the Executive Board.[266] During the 1990s, US pressure on IMF staff and Executive Directors in the Executive Board swayed sceptics of the Argentina programme and in the wake of the European sovereign debt crisis informal rule-making kicked in when deciding –in a crisis situation- on allowing Greece to access a loan that was more than 3000 % of its quota. It is indeed these aspects of informal governance (within the consensus-seeking rules in the IMF Executive Board) that warrant further scrutiny, but that are difficult to regulate and hard to control. Yet, since IMF decisions –ranging from structural conditionality to surveillance reports in the country- have significant impact on countries and their population, greater transparency should be a persistently pursued goal.

This also applies to timely publications of major shifts in IMF policy thinking, diversity in opinions or even a 'mea culpa' from senior IMF economists about major policy issues.[267]

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[261] Ibid.

[262] International Monetary Fund (2014) 2013 Review of the Fund's Transparency Policy, available online at http://www.imf.org/external/np/pp/eng/2013/051413.pdf.

[263] ibid, p. 10

[264] ibid, p. 17

[265] ibid, p.

[266] See Randall W. Stone (2007) The Informal Governance of the Fund: Lessons from Mexico, Indonesia, Korea, Russia, Brazil and Argentina, IEO Background Paper, 25 August 2007, Washington DC: IEO.

[267] A Washington Times article led an article on the co-authored article by the IMF's chief economist on fiscal multipliers in 2013 with the heading "An amazing mea culpa from the IMF's chief economist on Austerity",

For example, the recent publications about the IMFs underestimation of the financial multiplier effect of austerity policies (i.e. the IMF's previous policies were too optimistic with regards to the impact of austerity on unemployment and poverty) as well as the recent IMF staff note that challenged the view of the 'trickle-down effect' are encouraging examples of a more self-critical engagement of leading IMF staff with previous orthodoxy.[268] Yet, to what extent these staff publications affect actual Executive Board policies remains to be seen.

6.1.3 Possible Options for Strengthening Transparency, Accountability and Legitimacy

In recent years there has been a strong transnational movement towards inter-parliamentary engagement with international organizations and institutions involved in global governance. Two important examples of this are the Parliamentary Conference on the WTO (PCWTO) and the Parliamentary Network on the World Bank and IMF. While these initiatives are still relatively modest and do not directly influence decision-making processes, they nevertheless provide fora for transnational discourses that empower national parliamentarians and allow for some level of international scrutiny.[269] Since these networks complement the European Parliament's strong international presence and global networks between MEPs and other parliamentarians, issues of transparency, accountability and legitimacy could be addressed through a strong 'parliamentarisation' approach at the IMF level.

The Parliamentary Conference on the WTO (PCWTO) was set up by the European Parliament and the Inter-parliamentary Union in 2001. These gatherings are aimed at "strengthening democracy at the international level by bringing a parliamentary dimension to multilateral cooperation on trade issues."[270] The PCWTO brings together parliamentarians across the globe interested in trade issues. Furthermore, dialogues are organized on technical assistance and capacity building.

Similarly, the **Parliamentary Network on the World Bank and IMF** comprises parliamentarians from around the globe with a special interest in the policies of the World Bank, issues of development and the IMF.[271] According to its mission, the network is a platform for parliamentarians around the globe to advocate for increased accountability and transparency in International Financial Institutions and multilateral development financing".[272]

As such, it pursues four main objectives: [273]

1. Strengthen the understanding of the work of the World Bank Group (WBG) and International Monetary Fund (IMF) among parliamentarians;

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see http://www.washingtonpost.com/news/wonkblog/wp/2013/01/03/an-amazing-mea-culpa-from-the-imfs-chief-economist-on-austerity/

[268] See Era Dabla-Norris et al. (2015) Causes and Consequences of Income Inequality: A Global Perspective, IMF Staff Discussion Note, June 2015, available online at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf.

[269] Krajewski, Markus. "Legitimizing global economic governance through transnational parliamentarisation: The parliamentary dimensions of the WTO and the World Bank", ECONSTOR. www.econstor.eu.

[270] See Parliamentary Conference on the WTO, available online at http://www.europarl.europa.eu/intcoop/conference_wto/history_en.htm.

[271] For further information on the PNoWB, see http://www.parlnet.org.

[272] See http://www.parlnet.org/about/mission.

[273] idem.

2. Provide a channel for parliamentarians to inform the WBG and IMF of legislative priorities on behalf of their constituents;
3. Ensure that the voice of parliamentarians is heard on the subjects in which the WBG and IMF have a key role;
4. Conduct research to share information among members on topics which are of international concern and interest.

The network convenes once a year in plenary session to discuss issues which are on the agenda of the World Bank and the IMF and to exchange views with senior Bank and Fund officials. The main event is the network's Annual Conference, which seeks to engage parliamentarians in debates about issues on development and global governance; officials from the World Bank and the IMF also attend these meetings.[274] Furthermore, the network has to date organized six country visits for parliamentarians in order to facilitate dialogues between the network members and parliamentarians in recipient countries of World Bank or IMF programmes.[275]

Given the strong multinational and international nature of the European Parliament and its own global network of inter-parliamentary dialogues and partnerships, a reinforced link between the EP and the network on the World Bank and IMF could, in the long-run, also enhance parliamentary oversight of IMF policies.[276] Particularly given the fact that the EP itself has been a co-founder of the PCWTO means that it has enough expertise and institutional track-record for utilizing and integrating these tools more in its own activities related to global economic governance scrutiny. The advantage of EP involvement in these networks relates to country visits. As mentioned above, at the moment MEPs are not invited to IMF country visits, as otherwise US Congress can be expected to make similar demands of being included on fact finding missions. However, given the precedent of 'field visits' of the Parliamentary Network on the World Bank and IMF, visits could be streamlined and strengthened through this channel.

Yet, the impact and effectiveness of both the PCWTO and the World Bank/IMF network seem to be limited and their public reach highly questionable.[277] Thus, even though an upgrading of these scheme or consideration by the EP in their own work might be useful for information exchanges, it will not significantly affect issues of transparency or accountability of IMF activities.

Thus, short of this 'grander' scheme of transnational parliamentary oversight, the European Parliament could strengthen its own focus, expertise and dialogue with IMF interlocutors when EU institutions, the euro area or European member states are affected. Whilst there is a sizeable reluctance and resistance among IMF staff (and Executive Directors) to acknowledge a particular role for the European Parliament in direct IMF oversight and scrutiny, it is clear that the EP has an important function to fulfil when it comes to major issues and developments that affect European citizens.

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[274] Ibid.

[275] See http://www.parlnet.org/publications/field_visits_reports.

[276] Unelected Government: Making the IMF and the World Bank More Accountable. Source: http://www.brookings.edu/research/articles/2003/03/spring-globaleconomics-woods.

[277] The web presence and social media presence of both networks are very limited and the facebook presence of the Parliamentary Network on the World Bank and IMF has a mere 76 'Likes'.

Particularly in the context of the European sovereign debt crisis and the 'Troika's response to the Greek debt crisis, an acute lack of public scrutiny and European debate on the policies and governance processes has come to the fore. Negotiations as well as conflicts between the Greek government, strong European governments (such as Germany and Nordic countries) during the summer of 2015 revealed a wide range of fundamental problems related to transparency, accountability and legitimacy of Troika programmes, which should be tackled through a combination of stronger engagement by European national parliaments and the European Parliament. As already pointed out by the European parliament in an earlier report, it is in particular the ambiguous legal status of the Eurogroup that poses a wide range of questions and issues related to good governance and accountability.

As a result, a more active involvement of MEPs in organizing hearings and oversight meetings should be encouraged. Ideally, the EP's ECON Committee should create a cross-bench **working group on "Global Economic Governance"** which does not only regularly promote exchange of views on the IMF and global financial institutions, but also pushes for regular hearings and exchanges with IMF staff.

6.2. Transparency, Accountability and Legitimacy Issues related to EU-IMF Relations

When it comes to transparency, accountability and legitimacy issues in the context of EU-IMF relations, there are a variety of different dimensions and issues to be tackled at different levels.

Firstly, there is the issue of transparency and information flow within and between EU institutions. As outlined above, due to the lack of official status within the IMF, EU-IMF relations and negotiations are not conducted in a straight-forward and systematic way, but rather involve a wide range of fluid channels and semi-structured mechanisms. While a minimum of coordination between EU member states and EU institutions is being attempted both in Brussels and Washington, the lack of official status within the IMF not only limits the EU's coherent impact on the IMF, but also complicates governance processes and transparent decision-making.

Particularly in the context of EU-wide Article IV consultations, FSAPs or 'troika programmes' a stronger involvement of the European Parliament could provide opportunities for a more accessible public debate of key EU-IMF policies and processes. Key interviewees from the European Commission and European Central Bank have underlined their readiness to engage more intensively with the European Parliament, provided that constructive discussions are based on appropriate in-depth expertise on financial and economic matters on both sides. More open and transparent flows of information between the European Commission, ECB, Eurogroup and European Parliament are an important first step towards enhanced transparency, accountability and legitimacy.

Yet, the involvement of European Parliamentarians cannot always be pursued without substantial complications. For example, the suggestion to include selected MEPs in Article IV, FSAPs or country missions has met resistance from interview partners in Washington. One core argument has been that if MEPs are invited to IMF and EU-IMF activities, the Members of the US congress, for example, could reasonably lay their claim on more direct involvement. Thus, a reasonable involvement of MEPs should be carefully balanced with the likelihood of similar demands from other legislative bodies around the world.

In this light, it should be kept in mind that one strong option for holding EU-IMF policy-makers accountable remains **within the remit of national parliaments**. It is after all senior national policy-makers that serve as Executive Directors in the IMF's Executive

Board, which can as such be held accountable by their respective national parliaments. Indeed, while European member states' parliamentarians occasionally take advantage of attending the IMF's annual meetings as observers, the regular and systematic invitation of Executive Directors to national parliamentary hearings is a less frequently pursued option.

Yet, **there have been examples of past occasions in which the European Parliament has invited a delegation of World Bank Executive Directors for an exchange of views**.[278] This could, in particular in the current climate of intrusive policies and public disagreements within the troika, serve as an **important example for establishing a similar forum with IMF Executive Directors invited to the EP.**

Finally, given the EP's long-standing and strong international partnership with national (including the US Congress) parliamentary bodies, it would be advisable for the ECON Committee to take the lead in fostering sustained dialogues on EU-IMF (and global economic governance) issues.

Lastly, existing liaison mechanisms and opportunities both in Washington and Brussels could be utilized to a far stronger extent. The re-established and re-opened (in 2013) Brussels office of the IMF could serve as an important interlocutor for a sustained dialogue between the EP and the IMF. In interviews, the **current director of the IMF's Europe office** signalled his strong interest in a more enhanced relationship between the office and the EP. Similarly, **the EP's Liaison Office in Washington** could be enhanced to also focus more on EU-IMF issues. Taken together, the possibilities and opportunities for stronger EU-IMF transparency initiatives led by the European Parliament and its inter-parliamentary networks are significant and should be explored further.

[278] World Bank Executive Directors were invited so far on two occasions to the European Parliament: in 2004 and 2005. Already in 2005 the issue was raised by MEP Frithjof Schmidt whether the European Commission plans to extend the practice of inviting WB Executive Directors to IMF Executive Directors. See http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+WQ+P-2004-2619+0+DOC+XML+V0//EN&language=lt

7. SWOT ANALYSIS: THE IMF AND EU-IMF RELATIONS

This section provides two SWOT (Strengths, weaknesses, opportunities and threats) analyses. The first analysis is related to the IMF's current and future role in Global Economic Governance, and the second analysis to the EU's Relations with and within the IMF.

7.1. SWOT Analysis: The IMF and Global Economic Governance

The International Monetary Fund has undergone major changes, reforms and evolutions since its creation in 1945. Despite many criticisms and crises, particularly in the 1970s, 1990s and most recently since 2008, the IMF managed to adapt to new circumstances, demands and priorities of its member states. Yet, despite many successes, the IMF has also suffered from a variety of weaknesses and persistent threats to its effectiveness and legitimacy.

Strengths

The main strength of the IMF remains its near-universal membership and global reach as well as its strong financial resources and vast expertise in the areas of global economic governance. With 188 member states the IMF remains one of the most inclusive, near-universal organizations dealing with global economic governance (although the unequal distribution of power within the Fund remains a sticking point – see weaknesses below). Through its dealings with major (and differing) financial crises in the 1970s, late 1980s, 1990s early 2000s and the global and European crises since 2008, the Fund has not only proved its relevance as a lender of last resort and 'independent advisor' in terms of surveillance and reform, but has also adapted to new situations. Despite major shortcoming in predicting the financial crisis of 2008, the Fund has strengthened its internal processes, programmes and tools through various post-crisis reform efforts. The very fact that advanced economies, such as Germany and France, place trust in the capacities of the IMF's staff when it comes to technical assistance, monitoring of structural reforms and other advice –as evidenced by the IMF's involvement in Europe – serves a further confirmation of the IMF's continued and increased relevance in global economic affairs. By cooperating closely with the G20 and the Financial Stability Board (FSB), the IMF also provided timely input and valuable analyses to the G20's post-crisis policies, which took the lead in addressing the global financial crisis. After the down-sizing of staff in 2004 – 2007, the IMF staff grew again since 2008 in direct response to increasing need of expertise and human resources to deal with the post-crisis environment and tasks. The fund also managed to conduct a variety of internal reviews and reforms that at least attempted to address long-standing criticisms related to IMF governance, transparency and accountability. Recent years have also seen a more permissible environment in which senior IMF staff members were voicing their own criticism, reviews or even 'mea culpas' about previous IMF policies they deemed to be wrong. This is a sign of strengths, rather than weaknesses and perhaps the beginning of a culture of self-critical reflection and less encumbered thinking (as demanded by various IEO evaluations in the post-crisis era). Depending on one's view point, the recent public and rigorous stance by the Managing Director on Greek debt sustainability also signals the IMF's readiness to confront the Europeans in terms of how to handle government debt (and structural) crises within a currency union.

Weaknesses

One of the strongest criticisms levelled against the IMF has been its inability to voice warnings more strongly and more coherently in the run-up to the global financial crisis in

2007-8. While some warning signs were scattered across IMF policy documents (such as the GFSR in 2007), there is agreement amongst commentators and policy-makers that the IMF failed to predict or warn about the crisis when it had become increasingly predictable. Various reviews and the IMF's Independent Evaluation Office itself have cited problems such as 'silo-thinking', 'lack of willingness to speak truth to power' and an inability to 'connect the dots' as root-causes of the IMF's failure. Furthermore, the general tone of upbeat messages right up to the outbreak of the crisis was connected to an organizational culture in which IMF staff was less able to conceive of a major crisis in advanced economies. Despite recent reforms and integration of the IMF's surveillance and analysis tools, the IMF is slowly losing ground in terms of leading institution compared to less formal and less unwieldy institutions, such as the G20. The strongest perceived weakness has been, for the last five years, the IMF's inability to see through its quota reforms. This remains a sore point and disappointment for many emerging economies, in particular Brazil, India and China. While the reform depends on the approval in US Congress, it is an open secret that various Western governments would not like to cede their privileged (and disproportionately influential) position in the Fund. This, however, will continue to delegitimize the IMF's role as a truly *global* organization, which represents the interests of its strongest members proportionately to their economic weight and significance in the global arena. Similarly, the continued practice of electing a European as the Managing Director and the opaqueness of the selection process continues to weaken the IMF's legitimacy – notwithstanding Christine Lagarde's recent efforts including by the appointment of a Chinese official as one of her Deputy Directors. Furthermore, long-standing criticisms against the IMF's perceived (in some cases unfounded) lack of transparency and accountability hamper the IMF's image and hence its effectiveness among civil society organisations and populations in recipient countries. Despite efforts and the 2013 Transparency review, the IMF remains a little understood institution with many informal governance channels and various possibilities of undue political influence by its largest shareholder, the US. Lastly, anti-globalisation activists, but also serious international organisations (such as the ILO) have criticized the IMF for its continued reliance on 'neo-liberal' 'Washington Consensus' thinking and policy advice. Despite various public statements by IMF senior staff to the contrary, a recent comparative analyses of the IMF's Article IV reports of 67 European countries concluded that IMF policy recommendations still rely heavily on austerity measures, corporate tax reliefs and policies that weaken labour and pension protections, despite growing evidence (even among IMF staff publications themselves) that a 'one-size-fits-all' austerity approach can cause lasting economic damage. Finally, various non-EU members of the IMF have criticised the IMF's role in the 'Troika'. Particularly the fact that the IMF, ECB (despite the fact that the ECB is de facto the monetary institution of Greece and should therefore be the object of IMF surveillance, not the partner), and the European Commission (which is responsible for ensuring fiscal and macro surveillance in the euro area) sat on the same side of the policy table has raised questions about good governance and the IMF's role in the EU-IMF cooperation schemes. Furthermore, some commentators saw the strong role played by France and Germany (with the largest banking sector exposure to Greece) as a weakening of the IMF's independence.

Opportunities

Paradoxically, the financial crisis catapulted the IMF back to global relevance. While the years from 2004 onwards saw the down-playing and down-sizing of the Fund, the IMF re-established its relevance as an important crisis manager in the post-crisis environment. The IMF's involvement in the European debt crisis also confirmed the usefulness of the IMF as technical assistance provider and institutional partner in surveillance and structural reforms (see below). Lessons from the densely institutionalised relationship with the EU could also

open avenues for similar cooperation schemes with other regional organizations, provided roles, responsibilities and governance principles are clearly defined. The IMF's partnership with the G20, the FSB and OECD provide further opportunities for IMF global impact. In the future, the IMF is set to act even more as a hub of expertise and technical assistance and perhaps less as a lender of last resort. While many commentators view the rise of the Asian Infrastructure Investment Bank, the BRICS Contingent Reserve Arrangement, and the New Development Bank as a direct challenge of China and Asian countries to the IMF and World Bank, their creation can also be seen as opportunities, if meaningful cooperation goes hand in hand with the IMF's own internal reform.[279] Recent reforms and the build-up of the IMF's Regional Training Centres provide an important basis for the IMF to expand its reach and impact in the field of technical assistance, training and capacity-building. Given wide-ranging discussion in Europe and the US regarding the future of global capitalism and global social justice, the time might also be right for the IMF to engage more strongly with general issues related to global economic governance, including a wide range of stakeholders.

Threats

The biggest threats are linked to a combination of internal and external factors. Internally, if the IMF does not manage to reform its quota and governance system in the short- to medium-run, it will risk the further disenchantment of many of its members that are increasingly voicing their discontent. Reforms in terms of transparency and accountability and stronger engagement with civil society are also needed. While the US has always played the role of "primus inter pares", it is important for the IMF to remain the delicate balance act of independence from the US (in areas where this is possible) and maintaining its support. A legitimacy crisis can be brought about if either the IMF fails to predict and contain another major crisis (turbulences in Asia and China are to be watched carefully) or if some of its high profile programmes (e.g. in Greece) fail. While some see the creation of the AIIB, the BRICS Contingent Reserve Arrangement, and New Development Bank as an opportunity (see above) it can also be seen as a threat and institutionalised sign of a growing counter-balance of China and BRICS states to a perceived (and real) Western-bias of the IMF and the World Bank. Further threats can emanate from a continued lack of transparency, accountability and legitimacy in the eyes of ordinary citizens and disenchanted countries.

7.2. SWOT Analysis: The EU's Relations with the IMF

The IMF has in the past years become an important partner for the EU in addressing financial crises in several euro area countries. Their cooperation provided benefits to both organizations, but also posed a threat to the credibility of the IMF as an impartial international organization. A renewed cooperation in the context of a new IMF programme for Greece would provide opportunities but also potential threats to both, the EU/euro area and the IMF.

Strengths

The EU and the IMF benefitted from their cooperation in the past years in several ways. First, through its significant contribution to address financial crises in the EU, the IMF (re-) gained new legitimacy as an essential international organization in the regulation of global financial issues. The close cooperation with the EU may also serve as a valuable experience

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[279] Interviews with senior IMF officials confirm that these developments are rather seen as opportunities.

for the IMF for future collaborations with (other) regional organizations. Second, the EU could benefit from the IMF's expertise and legitimacy when drafting and implementing the programmes for Greece, Ireland, Portugal and Cyprus. The IMF at times also served as "corrective" for the EU's approaches, for example when the Fund insisted on debt restructuring for Greece in 2012 (and again in 2015). Despite the lack of formal membership in the IMF, the EU nevertheless manages to get its view heard in the IMF Executive Board, as a combination of the coordinator role played by EURIMF in Washington and preparatory meetings in Brussels. The lack of a "single seat" has been seen by various analysts and interview partners as a 'strengths' as it allows different strong EU countries to argue the same point from different perspectives. The relative speed with which the EU advanced cooperation with the IMF highlights the strong links between both organizations (certainly also as a result of the fact that the Managing Director is a European) and a strong lessons learned process about each other emerged in both organisations. Furthermore, the EU=IMF relationship highlighted the ability to advance cooperation schemes that are either strongly formalized (e.g. in the form of framework agreements in the area of technical assistance since 2010) or more loosely organized. Cooperation between IMF staff and EU institutions in the context of Article IV consultations, WEO and FSAPs have also pointed to a process that each stakeholder takes seriously and benefits from. Finally, the EU and IMF have gone furthest in their institutionalised partnership in the area of technical assistance and capacity building, as underlined by the recent renewal of the Framework agreement in 2014.

Weaknesses

First of all, the fact that some EU policy-makers, such as the German chancellor Angela Merkel insisted that the EU needed to cooperate with the IMF in programmes for euro area countries illustrates that there was a lack of confidence in the EU's ability to solve the financial crises on its own. This confidence is not much stronger in 2015. The cooperation with the IMF thus somewhat illustrates the EU's own weakness in its ability to address financial issues. To ensure cooperation with the EU in the context of the launch of a programme for Greece that was closely aligned with an EU programme, the IMF in 2010 bent its (lending) rules. From the IMF's perspective, this was certainly a shortcoming of the cooperation with the EU and led to harsh criticism among stakeholders within the Fund. Open disagreements between EU and IMF officials that became public in May 2013 as well as the current insistence of many stakeholders within the IMF that argue that a new programme for Greece needs to include further debt restructuring illustrates that the IMF tries to prevent the impression that it frequently gives in to pressure coming from EU policy-makers.[280] Such open disagreements undermine EU-IMF cooperation and the legitimacy of their joint programmes. The lack of proper oversight and transparency mechanisms of Troika activities severely undermined the EU-IMF legitimacy. Weaknesses in terms of coordination in the field and differing levels of expertise also came to the fore during the last five years. Last but not least, there was no major attempt to provide wider coherence between the EU-IMF partnership and the wider contexts of G20 activities. Triangulating the activities of all three organizations could have provided even further benefits. When it comes to EU-IMF cooperation in surveillance (i.e. Article IV, FSAPs and WEOs), weaknesses have emerged in terms of limited involvement of the European Parliament and limited follow-up actions and debates. IMF-EU surveillance activities are routinely conducted away from public attention and thus fail to engage a wider public

[280] This is also important in case that the IMF cooperates with another regional organization in the future. In such cooperation, the IMF is unlikely to be unwilling to be the 'junior partner' of the other organization.

debate and dialogue that would be healthy for greater acceptance and appreciation of the vital processes of surveillance. Particular weaknesses in EU-IMF relations have come to the fore in terms of transparency and accountability of EU institutions' coordination and role in the IMF in the context of the 'Troika'. Here severe legitimacy problems might arise if the process is not managed more clearly and with stronger legislature involvement – be it at the national or European level. While the European Parliament has been involved in some Article IV and FSAP discussions, a more structured dialogue is needed.

Opportunities

On the other hand, the launch of a new IMF programme for Greece in 2015 that is closely aligned with the ESM programme would increase the legitimacy of the latter. It may also create the basis of a strong EU-IMF cooperation in future activities (beyond programmes for Greece) to jointly and effectively address global financial issues. In addition, through further cooperation with the IMF beyond the year 2015, the EU can increase its experience in addressing financial crises. Further opportunities exist in strengthening channels of cooperation other than through the troika. Stronger relations between the IMF's Europe office in Brussels and EU institutions (particularly the European Parliament), between the European parliamentary Liaison Office in Washington and the IMF as well stronger involvement of the EP in Troika-related hearings and workshops could provide stronger impetus to a transparent debate. The environment and opportunity is presenting itself now in the wake of the Greek crisis to promote a more structured relationship and supervision of the Troika and Eurogroup in particular. Lastly, a pro-active EU-IMF partnership could provide important initiatives in global economic governance as well as technical assistance in a wide range of regions and countries. Given the EU-IMF agreement and cooperation in this area since 2010 (and its renewal in 2014), opportunities for sustained impact in low-income countries, but also in Europe itself should be explored.

Threats

According to some observers, the Fund has become the EU's 'junior partner' in addressing the financial crises in EU member states – a view that is strongly rejected by some IMF officials. If this view, however, prevails, it would pose a threat to the credibility of the IMF as an impartial organization and further strengthen those critics that regard the IMF as an organization that frequently promotes "Western interests". Due to potential disagreements between EU and IMF officials on the issue of debt restructuring in Greece, the rather close partnership that was maintained between 2010 and 2015 might come to an end. This again would pose a threat to the credibility of the new ESM programme for Greece that was decided in July 2015. Indeed, if the IMF decides against the launch of a new programme for Greece that is aligned with the ESM programme, this would provide a good platform for Greek politicians and other critics that argue that the ESM programme sets too harsh conditions on Greece. Further threats might emanate from a public backlash against the troika and a failure of the joint programme in Greece and elsewhere. The current climate of scepticism towards political elites and international organisations should be pro-actively countered by wider debates, more transparency and the wide involvement of a variety of public, private and civil society stakeholders.

8. CONCLUSIONS AND POLICY RECOMMENDATIONS

This paper has provided an in-depth analysis of the IMF and the EU's relations with the IMF since the financial crisis of 2008. It has outlined and assessed various institutional, policy and governance aspects and raised several points about the strengths and weaknesses of both the IMF in global economic governance and the EU-IMF partnership in European economic governance and the provision of technical assistance. The study has highlighted the recent changes that both the IMF and the EU-IMF relationship have undergone since the financial crisis in 2008 and pointed towards the various modes and areas of joint activities and cooperation. It also sought to highlight the room and possibilities of the EU in influencing IMF policies in Washington. Finally, particular emphasis was placed on issues related to transparency and accountability both related to the IMF as well as EU-IMF relations. Given the state-centric nature of the IMF and its statutes, the idea of a 'single EU seat' at the IMF may remain a rather difficult option for years, if not decades, to come. While the idea of unified representation has been alluded to in recent discussions initiated by the Juncker Commission, it is important to keep in mind in which ways EU influence in the IMF can be strengthened through existing channels (streamlining EUIMF/SCIMF procedures and effectiveness in Brussels or creating a horizontally integrated 'global economic governance' working group). From a global perspective, a sober analysis needs to be made under which circumstances strong EU influence and leadership in the IMF is helpful and when it is harmful.

As highlighted throughout this paper, issues related to transparency, accountability and legitimacy should remain of particular interest to the European Parliament. Particularly issues related to the 'Troika' activities in the IMF and the opaque and intransparent role of the Eurogroup warrant closer scrutiny by the European Parliament. Regular hearings with the ECB's President should be complemented with more frequent dialogues with the European Commission, Eurogroup and in particular European MSs Executive Directors of the IMF. The lack of transparency of EU institutions when it comes to their dealings with the IMF in the context of the troika should be actively tackled. Regular consultations between the European Commission and the European Parliament as well as between the EURIMF chair and the Parliament should be encouraged. Furthermore, in case of consultations regarding discussions (and IMF country visits) related to Article IV and euro area FSAPs, the position of the European Parliament should be strengthened, particularly given the recent evidence of a continuing overreliance of austerity policies suggested in Article IV reports.

Beyond the issues related to oversight of the EU institution's dealings with the IMF, the European Parliament should also encourage more active dialogue with the IMF. However, in these discussions, account should be taken of the fact that the IMF is by no means required to promote the EU's values, advance its objectives, or serve its interests. As observers have pointed out, the IMF is assumed of being broadly sympathetic to the European project.[281] This, however, does not mean that the EU should take the Fund's support for programmes for euro area countries with financial problems for granted. In contrast, developments in the past years indicate that the IMF has become more cautious in its willingness to closely align with the EU's approaches pursued in ESM programmes.

Moreover, account should be taken of the fact that the IMF is and will remain a state-centric organization that is per se not accountable to national parliaments or the European

[281] James Boughton (2001), Silent Revolution: The International Monetary Fund, 1979-1989, Washington, DC: International Monetary Fund.

Parliament. By reason of its statutes, the IMF cannot appear formally before or report in writing to national or European parliaments. The 'Two-pack reform' of 2013 enabled the European Parliament to invite representatives of the IMF to a dialogue; the IMF, however, is not required to attend such meetings. The effectiveness of the dialogue thus depends on goodwill and the level of confidence that will develop between the IMF and the EP in the coming years.

Also national parliaments can invite national representatives at the IMF to report on the Fund's activities. Probably more effective is the possibility of national parliaments to request the national ministry of finance to report on the IMF operations. In all EU member states, national parliaments could more often use this possibility. In addition, the parliaments could closely cooperate with the European Parliament to share information on IMF activities. The oversight powers of the national parliaments with regards to IMF programmes will nevertheless remain limited. In contrast, some national parliaments in EU countries have significant democratic oversight and veto powers over ESM programmes. Since IMF programmes have in the past often been closely aligned with EU programmes, national parliaments already have a somewhat indirect oversight over IMF activities.

Yet, it has become clear throughout the analysis that the European Union and the European Parliament in particular are well advised to seek a stronger dialogue with the IMF and strengthen institutionalized relations (through, for example, a more effective use of the IMF Europe office in Brussels and Paris). As outlined above, in terms of increasing transnational dialogue on issues related to IMF-led global governance, it might be worth exploring a strengthening and revival of the Parliamentary Conference on the WTO (PCWTO) and the Parliamentary Network on the World Bank and IMF. As a co-founder of the PCWTO, the European Parliament is in a particular good position to initiate wider, global debates on the impact and future direction of IMF policies.

Recommendations to the European Parliament

1. Strengthen institutionalised and systematic involvement of ECON members in IMF-EU discussions related to Article IV and FSAPs related to the euro area
2. Increase the European Parliament's feed-back opportunities from the European Commission, European Central Bank, Eurogroup and, if possible, EURIMF Presidency on issues related to EU-IMF programmes and activities
3. Initiate consultations with civil society organisations and wider public on the implications of EU-IMF programmes as well as Article IV consultations and FSAPs. Initiate regular hearings on 'Global Economic Governance' and EU-IMF Relations in the EP
4. Utilize regular hearings with the EBC's President for dialogue on the roles of the IMF and the EU in European and Global Economic Governance
5. Promote stronger relations and an institutionalised dialogue between the European Parliament and the IMF Office in Brussels/Paris as well as between members of the European Parliament and the IMF staff and member states' Executive Directors
6. Cooperate closely with European national parliaments on issues related to transparency, accountability and oversight of EU member states' policies within the IMF's Executive Board
7. Follow the examples of previous invitations of World Bank Executive Directors to the European Parliament by inviting European IMF Executive Directors to EP hearings or workshops

8. Strengthen the European Parliament’s transnational links with the Parliamentary Network on the World Bank and IMF in order to increase inter-parliamentary exchanges and debates on key issues related to the IMF’s activities

Recommendations to member states’ parliaments

9. Use all possibilities to continue and increase discussions with national finance ministries and/or central banks and gain information on the EU member states’ positions in the IMF and on IMF activities
10. Strengthen cooperation with the EP on EU-IMF cooperation and EU-IMF joint programmes through regular dialogues between ECON and the relevant parliamentary committees of the EU member states and information sharing on national positions within the IMF

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NOTES

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