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The European rescue of the Washington Consensus? EU and IMF lending to Central and Eastern European countries

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Abstract The global financial crisis has transformed the relationship between the International Monetary Fund (IMF) and the European Union (EU). Until the crisis, the IMF had not lent to EU member states in decades, but now the two organisations closely coordinate their lending policies. In the Latvian and Romanian programmes, the IMF and the EU advocated different loan terms. Surprisingly, the EU embraced 'Washington-Consensus'-style measures more willingly than did the IMF, which much of the contemporary literature still portrays as an across-the-board promoter of orthodox macroeconomic policies. We qualify this stereotypical characterisation by arguing from a constructivist perspective that the degree of an organisation's autonomy from its members depends on the interpretation of its mandate. IMF staff viewed the Fund's technical mandate as an opportunity to react rather flexibly to the challenges of the latest crisis. By contrast, European Commission, as well as European Central Bank (ECB), staff interpreted the vast body of supranational rules as necessitating stricter adherence to economic orthodoxy. Thus, IMF lending policies were more flexible and, at least on fiscal issues, also less contractionary.

Keywords International Monetary Fund (IMF); European Union (EU); European Commission; European Central Bank (ECB); Washington Consensus; financial crisis.

Introduction

The global financial crisis of 2007–08 marked a formative event for both the International Monetary Fund (IMF) and the European Union (EU). The London G20 Summit in April 2009 reinvigorated the Fund as the foremost international provider of short-term liquidity, as the head of states pledged to treble its lending capacity to $750bn. By that time, the crisis had revealed first cracks in the dream of the EU as an ever-stable zone of economic prosperity. Since November 2008, when Hungary was the first country to demand balance-of-payment (BoP) assistance under a special EU facility shortly after concluding a loan arrangement with the IMF, joint crisis lending has been the order of the day. So far, five member states have followed Hungary in receiving assistance from both the EU and the IMF: Latvia, Romania, Greece, Ireland and Portugal (in chronological order, as of 30 September 2012).

The crisis has transformed not only the IMF and the EU individually but also their relationship with one another. The Fund's spectacular comeback and the EU's enormous challenges combine to create a novel setting for two organisations whose regular interactions until recently hardly exceeded the IMF's Article IV consultations with the euro area as a whole. By any standard, the IMF's main occupation with European economies is unprecedented in its almost 70-year history. Conversely, EU member states rely heavily on external funding.

Joint lending to European countries requires the approval of both the IMF Executive Board and the Economic and Financial Affairs ('Ecofin') Council. Before that approval, 'mission teams', which comprise IMF, European Commission and, occasionally, also European Central Bank (ECB) staff members, negotiate the terms of the loan arrangements with country authorities. When

Hungary, Latvia and Romania requested emergency loans in 2008–09, a puzzling constellation ensued that we, inspired by Alan Milward (1992), name ‘the European rescue of the Washington Consensus’. The ‘Washington Consensus’ (Williamson, 1990) has, despite various interpretations (Marangos, 2009a, 2009b), been associated with orthodox macroeconomic policies prescribed, among others, by the IMF (Babb, 2012: 2–7). Yet it was the EU, rather than the IMF, that came to the rescue of the Consensus in the latest financial crisis: Even though, in the end, the IMF Board and Ecofin approved strict loans terms, IMF staff entertained partly diverging policy proposals. The Fund, an ardent defender of macroeconomic orthodoxy up until the Asian crisis, had somewhat relaxed its orthodox stance on the ‘appropriate’ degree of loan conditionality; the EU, by contrast, emerged as an advocate of even more contractionary, or pro-cyclical, measures in return for loans.

This finding of a *relatively* more austere EU contradicts widely held assumptions about the IMF’s role in the global economy. Our empirical observation also questions the strength of reputational concerns that make the Fund an enforcer of ‘sound’ macroeconomic policies in the first place (Broome, 2008), but it updates Rawi Abdelal’s (2007: xi) finding of ‘European leadership in writing the liberal rules of global finance’. There is, moreover, a critical bias in the empirical literature when it comes to the arbitrary attribution of pro-cyclical monetary and fiscal policies to the – primary or sole – influence of the IMF (Cordero, 2009; Gabor, 2010) even when the EU was involved and promoted stricter loan terms. To explain this, state-centric approaches (Broz and Hawes, 2006; Gould, 2006: ch. 5; Oatley and Yackee, 2004; Thacker, 1999) would purport that those ‘softer’ IMF policies reflected ‘national’ interests or domestic preferences in relevant member states. But given that European states in both organisations expressed the same preferences, why did IMF and European Commission staff disagree on the design of policy programmes?

In this article, we address this puzzle from a moderate constructivist view of inter- and supranational organisations as bureaucracies whose staff enjoy some autonomy from their members to pursue organisational objectives (on the IMF, see, among others, Babb, 2003; Barnett and Finnemore, 2004: ch. 3). Specifically, we argue that the degree of autonomy depends on how an organisation interprets its often ambiguous mandate (see Best, 2005). The IMF's mandate is predominantly technical, which its staff members construed as allowing them to rethink macroeconomic policies over the last decade and also in the most recent crisis. This stands in stark contrast to the more rule-based mandates of the European Commission and the ECB, as defined by the European Treaties. Against the backdrop of the financial crisis, supranational European actors interpreted this dense web of rules and norms narrowly as obliging them to implement orthodox macroeconomic measures. Our analysis relies on a combination of document analysis and personal interviews that we conducted with IMF, World Bank, European Commission and German Ministry of Finance representatives from September 2009 to July 2012.[1]

The argument unfolds in three steps. First, we contrast the state-centric literature on crisis lending with our understanding of inter- and supranational organisations as bureaucracies. Second, we provide empirical evidence for the conflicts between the IMF and the EU over the first three joint crisis lending arrangements, all of which have expired by now.[2] These cases exemplify the IMF's greater flexibility in tackling severe economic problems in borrowing countries already before the far more contentious Greek case. Third, we explain how the interpretation of organisational mandates in the financial crisis informed the diverging policy stances held by the IMF and the EU. The conclusion summarises our findings and considers implications for the future of (joint) crisis lending.

Member state and private actor influence on crisis lending

Member states are omnipresent actors in contemporary inter- and supranational organisations. As creators of organisations ('principals'), they have delegated a number of tasks to organisational staff (their 'agents') but retain the right to decide on all relevant policy proposals (see Hawkins et al., 2006). In this state-centric view, organisations invariably 'produce' those policies that (most of) their members prefer.

State-centric approaches culminate in the claim that member states 'call the shots' in lending decisions. This familiar contention with a respectable pedigree in IPE is rooted in two major schools of thought. One is the realist school invoking 'national interests' – read: political and economic power considerations – as the main determinants of IMF policies. It is typical for such accounts to focus on the role of the most powerful member(s) (Momani, 2004; Thacker, 1999). The other is the liberal school, which owes much of its intellectual core to the work of Andrew Moravcsik (1993, 1997) on European integration. Liberal analyses regard organisations as acting on the preferences of key domestic constituencies (Broz and Hawes, 2006), or of public or private 'supplementary financiers' (Gould, 2003, 2006). Some authors combine these two overlapping accounts to construct multi-layered explanations (Copelovitch, 2010; Oatley and Yackee, 2004; Stone, 2008).[3]

The role of member states is indeed noteworthy in joint IMF-EU crisis lending. The Ecofin Council and the IMF Executive Board are tasked with decisions on loan arrangements and corresponding policy programmes. The EU's internal agenda is mostly set by an Ecofin sub-body, the Economic and Financial Committee (EFC), through its preparation of Ecofin meetings and those of the Eurogroup of euro area finance ministers. EFC representatives are officials delegated from member states' ministries and central banks; the Commission (DG Economic and Monetary Affairs, 'ECFIN') and the ECB always participate in the sessions (Dyson and Quaglia, 2010: 765–766). The Council retains the final say on these matters, but the ministers tend to accept agreements between their high-rank delegates in the EFC.

At the IMF, formal decision-making rests with the Executive Board, which consists of twenty-four Directors representing either a single country or a multi-country constituency. One of their most critical tasks is to decide on temporary financing for member countries (Barnett and Finnemore, 2004: 48). Voting rights correspond roughly with economic performance so that the representatives of richer members yield more influence over the entire decision-making process, including the evolution of the typical 'consensus' during Board meetings (Moschella, 2011b: 128–129). The United States, the Fund's largest member, is vested with an effective veto power, as are the five largest EU member states (Germany, France, the U.K., Italy and Spain) combined with a voting share of more than 19 per cent.[4] Apart from Germany, France and the U.K., all European members belong to several heterogeneous multi-country constituencies (Barnett and Finnemore, 2004: 48). To facilitate the timely coordination of their positions for Board meetings, EU member state representatives at the IMF convene in an IMF-internal group called ‘EURIMF’, which is shadowed by ‘SCIMF’, a subcommittee of the EFC. Commission and ECB delegates attend EURIMF and SCIMF meetings (Hagan, 2009). IMF lending policies were high on the agenda of these groups while Executive Board decisions on European programmes were pending (Interviews #021 and #025: IMF country representatives).

U.S. influence on the European programmes can be understood as indirect at best. During our interviews, references to its potential influence were in fact rare and of a general nature when they were made (Interview #010: German Finance Ministry staff member). There were no conflicts in these cases that our interviewees considered worth mentioning.[5] Unconstrained by the U.S., European member countries at the Board succeeded in pushing through rather strict loan terms. The state-centric literature would explain this lack of conflict among European IMF members in one of two ways.

First, in a realist reading, European policymakers share an interest in preventing sovereign defaults for fiscal reasons. If even a smaller economy defaulted on its outstanding debt, the crisis could spread quickly and trigger costly ‘bailouts’ of financial institutions across Europe while at the same time lowering domestic tax revenues. Most evident is this fear of contagion in the extraordinary unity among the representatives of European states: although they might have expected to soon become borrowers themselves, even countries in financial distress, such as Portugal (which later followed suit with its own programme) or Spain (which is under no arrangement to date), did not vote against the programmes under discussion.

Second, in a liberal reading, a state's stance on crisis lending is largely a function of the economic stakes of domestic constituencies or the general public. It is not a coincidence that Germany and France, because of their banks' enormous exposures, were particularly concerned about a looming Greek government default, or that the U.K., because of mutual exposure, provided bilateral financing to Ireland (BIS, 2012).[6] To protect public funds from misuse for 'bailouts' of financial firms, states and multilateral institutions alike saw private sector commitments as critical to containing the crisis: in 2009, the IMF and the European Commission, together with other multilateral institutions, orchestrated the European Bank Coordination Initiative ('Vienna Initiative'), which was specially designed to encourage foreign banks to maintain their 'exposure' through loan rollover and subsidiary recapitalisation (IMF, 2009a).

However, these state-centric explanations cannot illuminate why the IMF and the European Commission favoured different lending policies in the most recent crisis. As we can assume that European member states communicated the same preferences in Washington as in Brussels, both IMF and the Commission staff should – in line with state-centric reasoning – have advocated similar, if not identical, macroeconomic policies. But this was *not* the case in joint lending to Latvia and Romania. On the contrary, IMF positions during loan negotiations proved more flexible and even partly less orthodox than those of the Commission. Our attention must thus turn to the workings within the organisations that 'processed' the same preferences differently.[7]

Accounts of inter- or supranational organisations as bureaucracies with autonomy from member states can bridge the gap between state input and organisational output. As a burgeoning body of constructivist scholarship highlights, organisations often develop a 'life of their own' after having been delegated the authority to act on behalf of their creators (Babb, 2003, 2007; Barnett and Coleman, 2005; Barnett and Finnemore, 1999; Barnett and Finnemore, 2004; Chwieroth, 2008a, 2008b; Weaver, 2007, 2008). In an evolutionary process, which gives them substantial autonomy, they become more than platforms for state interaction or 'transmission belts' of state preferences. As a result, different organisations 'process' the demands of their members differently.

Constructivist analyses seek to understand the pathways through which the 'social stuff' in an organisation drives policies in certain ways but not others. An organisation's mandate is an obvious starting point. The mandate broadly defines an organisation's purposes, specifies its functions and channels its activities into a certain direction while leaving enough ambiguity for departures from the established trajectory (Babb, 2003: 5–7). Though guided by these underlying organisational rules, staff members can broaden or narrow their meaning, which is never set in stone (Best, 2012b). Mandates create rough templates for organisational action (Babb, 2003: 17–18; see Broome and Seabrooke, 2007) and remain open to contextual (re-)interpretation (Barnett and Finnemore, 2004: 5, 22). The IMF's mandate, for example, has been (kept) ambiguous ever since its inception, which inspired competing policy interpretations of how to handle new or recurring ambiguities (Best, 2005, 2012a).

Crises open even larger 'windows of opportunity' for political actors to re-interpret organisational objectives than do normal times.[8] We show how, in the latest global financial crisis, IMF and European Commission (as well as ECB) staff (re-)interpreted their organisational mandates in different ways, which in turn shaped their specific crisis lending approaches. A broader interpretation of a mandate translates into more policy flexibility in crisis lending, as the IMF's fiscal and monetary policy stance in joint lending with the EU illustrates.

Cooperation and Conflict in Joint Crisis Lending

Lending procedures

The IMF has been in the business of crisis lending for almost seven decades now. Over time, the organisation has reformed or abandoned lending facilities, as well as creating new ones some of which pushed it far beyond its original mandate, most notably into joint poverty reduction operations with the World Bank. One facility, however, is nearly as old as the organisation itself: the Stand-By Arrangement (SBA) was approved by the Executive Board in 1952 and subsequently evolved as 'the principal vehicle for conditionality' (Barnett and Finnemore, 2004: 58). Hungary, Latvia and Romania all concluded lending arrangements with the IMF under its SBA facility.

Not only is the SBA the IMF's oldest loan facility (Bird, 2003: 230), the volumes of SBAs are also substantial. As of 31 December 2011, for example, the combined total amounts of all 'active' SBAs (measured in units of special drawing rights (SDRs), the Fund's currency) were higher than those of any other facility – if we exclude the more voluminous but undrawn precautionary loans under the Flexible Credit Line (FCL).[9] SBAs can last for up to thirty-six months, but typically their length varies between twelve and twenty-four months. The 2009 upgrade made SBAs more flexible, particularly with regard to the option of precautionary access to funding, called High-Access Precautionary Arrangements

(HAPAs) (Moschella, 2011a). Most loan arrangements are supplemented by smaller amounts of supplementary financing from other public or private sources, which can induce additional IMF conditionality (Gould, 2003, 2006). Private creditors may contribute their financial share to a programme, either by rolling over loans (like under the 'Vienna Initiative') or, more drastically, by accepting 'haircuts' from outstanding debt.

The EU is not nearly as experienced a lender as the IMF. Despite a long tradition of 'community loans' dating back to the 1970s, the purpose of European institutions has never been supranational crisis lending on any comprehensive scale. Introduced with Council Regulation No 332/2002 (EC, 2002), the BoP facility to which EU member states yet outside of the euro area (such as Hungary, Latvia or Romania) can apply for financial support replaced an older facility for 'medium-term financial assistance' from 1988 (EC, 1988). The previous financing ceiling was reduced from €16 billion to €12 billion, but in the midst of the financial crisis, the Council more than quadrupled the cap in two steps within less than six months: the volume was raised first to €25 billion in early December 2008 and then to €50 billion in mid-May 2009 (Council of the European Union, 2008, 2009c). The consolidated Treaty on the Functioning of the European Union (Art. 143 TFEU; ex Art. 119 TEC, Treaty establishing the European Community) entitles the European Commission to the management of BoP imbalances while the Council decides on the provision of 'mutual assistance' upon the Commission's recommendation.

With joint crisis lending come new procedures. In our three cases, the duration of EU BoP loans is 'SBA-compatible', which facilitates the alignment of lending operations. Similarly, even though its staff members admit to having initially undertaken fewer and shorter missions, the Commission now runs quarterly reviews like the IMF (Interview #006: European Commission staff members and Acting Director). It did not take long until IMF and Commission staff went on formal joint missions to perform a variety of functions. At certain points, mission teams are temporarily sent to a member country, where they assess the viability of a proposed programme, review the ‘progress made’ in terms of the agreed targets, potentially renegotiate an existing arrangement, or complete an expiring one. In return for the next instalment, the country must meet the conditions set out in the programme. The successful completion of each quarterly review triggers the next payment, often – though not always – in the same quarter from both lenders; disbursements can be delayed in cases of noncompliance.

New procedures can also give rise to pronounced inter-organisational friction. A telling example is the episode of the ‘untimely’ Hungarian negotiations efforts with the IMF, which revolved around the seemingly harmless question of which organisation EU member states have to contact first when seeking external financial support. At the IMF-World Bank Annual Meetings in Washington in October 2008, the Hungarian authorities approached Fund staff, who then notified the Commission, in an effort to secure urgently needed financing. The order of requests was contrary to the shared understanding among EU member states that they shall inform each other and the Commission about their plans to request external financing, for within the Union, states have the prerogative to manage their own affairs (Interview #006).

Differences occurred not only over procedures but also, more significantly, over policies. Borrowing countries still conclude separate loan arrangements with the IMF and the EU. These arrangements have similar formal parameters but are not identical, as Table 1 demonstrates. The conditions on the *same* item[10] are agreed between the IMF and the EU: as became abundantly clear during our interviews, neither side could risk being played off against the other by a prospective or actual borrowing country that tries to extract a better deal from the more accommodating lender. Substantial differences over specific policies can arise between the two lenders during (re-)negotiation or review phases. These differences have to be resolved for the two programmes to be or remain compatible. Conducting joint missions often merely brings about the needed level of compatibility between the final policy programmes. Thus, we need to distinguish between the lending policies of the two organisations and the resulting programmes that are political compromises struck between them.

[Table 1 about here]

Comparing IMF and EU lending policies

A closer look at specific IMF and EU positions before the conclusion of an arrangement and during the programme period underlines our general observation of distinct macroeconomic approaches to joint crisis lending. More specifically, the IMF and the EU opted for different monetary and fiscal policies in the adjustment programmes. While the IMF and the EU readily agreed on a number of critical economic issues in each joint programme, there were also instances of substantial disagreement over how to best tackle the BoP crises in Central and Eastern Europe. Conflicts arose over the Latvian and Romanian programmes, but we have found no evidence for substantial conflicts in the Hungarian case.[11]

At the time of request for external funding, Hungary, Latvia and Romania each faced very unfavourable economic prospects, with their BoP imbalances stemming from a confluence of multiple internal and external developments (see IMF, 2008a, 2009h, 2009j). Latvia was further constrained institutionally through its membership in the European Exchange Rate Mechanism II (ERM II), under which a member keeps its domestic currency fluctuating within a 15 per cent band relative to the common currency before acceding to the euro area; Latvia had committed itself to a far more rigorous scheme for its currency, the lats, of plus/minus 1 per cent only. Thus, almost all measures in the Latvian programme were aimed at upholding the currency peg to the euro. The peg was pivotal to the programme and a divisive issue for IMF and European Commission staff, informing different positions on fiscal deficit targets. Tables 2 and 3 illustrate the most contentious issues between IMF staff on the hand and Commission staff on the other.

[Table 2 about here]

2009 was an economically tumultuous year for Latvia. In July, the Council decided to open an excessive deficit procedure (EDP) for Latvia, Lithuania, Malta, Poland and Romania under Article 104(6) (Council of the European Union, 2009a), urging Latvia to achieve a deficit of no more than 3 per cent of GDP by 2012 and setting a 7 January 2010 deadline for taking ‘corrective action’ (Council of the European Union, 2009b). While for the Council the deficit target was still attainable, the IMF displayed less optimism. During the first review of Latvia’s SBA in August 2009, IMF staff recognised the government’s extraordinary difficulties in meeting the 2009 target of initially 5 per cent of GDP. IMF staff advocated a higher target of up to 13 per cent, acknowledging candidly that such a revision would entail ‘somewhat later euro adoption’ (IMF, 2009f: 26) than the current target date of 2014. In the end, the Latvian authorities decided to follow the EU’s stricter recommendation of 8.5 per cent (IMF, 2009g: 7–8), even though IMF staff was markedly unconvinced of the socio-economic appropriateness of that adjustment path (IMF, 2009f: 25–26 and esp. 67, Tab. 14).[12]

[Table 3 about here]

Even more contentious became the IMF’s proposal of ‘unilateral euroisation’ (IMF, 2009h: 27, Box 21). European Central Bank and Commission officials, alongside the influential Eurogroup, outright rejected the idea that would have implied earlier euro adoption by Latvia regardless of official EU convergence criteria. Fearing the consequences of such a move, European authorities portrayed Latvia as a stepping stone to deeper European monetary integration, not least because it would become the first Baltic state to introduce the single currency. In their view, ‘rapid euro adoption’ would have had such an effect (Tumpel-Gugerell, 2009; Interview #003: IMF country representative):

> Latvia is sticking to that peg … [I]t’s amazing how overriding an objective this is … that they are willing to across the board live miserably for several years to ultimately adopt the euro. … I mean, originally I thought, ‘Let them euroize. Can’t the ECB look the other way?’ … But Latvia didn’t want to do that because that would get the Europeans upset because they wouldn’t actually be in the eurozone … (Interview #004: IMF country representative).

The firm stance of the leading EU bodies had sizeable social consequences in Latvia. The authorities kept the lats within the narrow unilateral band, rather than allowing it to depreciate towards the more accommodating 15 per cent threshold. As a consequence, deep cuts in public spending were administered, including reductions of social expenditure. Indeed, IMF staff showed a preference for a longer adjustment period – potentially with unilateral euroisation – to ensure a sustained economic recovery with more evenly distributed social costs (Interview #002: IMF staff member), as well as full debt repayment.

In the case of Romania, IMF and Commission staff disagreed over how best to contain the country's fiscal deficit. The typical choice that any government faces in times of economic hardship is one between raising taxes and reducing public expenditure. As Romanian authorities pondered over the best measures for fulfilling the agreed objectives, the former became the more viable option. IMF staff showed sympathy for deficit reduction with 'revenue measures', as it did for the (unconventional) use of EU structural funds to address the country's BoP problem. Also, the IMF was again willing to compromise on the length of adjustment period towards the omnipresent 3 per cent target to offer Romania a less painful route to recovery. The EU did not share, let alone support, any of these proposals, none of which made it into the programme (IMF, 2010d: 13; Interview #006; Interview #007: European Commission Director).

Supranational European preferences came to the fore with a vengeance when the Romanian programme was under review. Public sector wages were to be cut by a staggering 25 per cent and social benefits, including pensions[13], by 15 per cent prior to the disbursement of the third instalment (EU, 2010: 6; IMF, 2010d: 13). The authorities later took 'additional compensatory measures' in their 2010 budget equalling 4.6 per cent of GDP to secure the fourth EU tranche (EU, 2011b: 3), though before a revision of half the size had seemed sufficient (IMF, 2010d: 13). But the authorities' commitment to a deficit reduction to 3 per cent by 2012 proved steadfast (IMF, 2010f: 2–3).

In sum, the IMF proposed more flexible lending policies in both cases whereas the EU upheld many of the old orthodox principles of the Washington Consensus. The Fund's macroeconomic policy stance, which had taken shape since the Asian crisis and become manifest elsewhere during the latest crisis, such as in Iceland, Belarus or Mexico (Broome, 2010), was deemed too flexible by Commission staff. Part of the IMF's greater flexibility, however, results from methodological problems to determine quantitative programme targets, which have long been inherent in programmes. Revisions of initial targets may then reflect genuine policy flexibility and simultaneously act as 'buffers' for inaccurate calculations and estimations (Mussa and Savastano, 1999; Easterly, 2006).

Another clarification is in order. Our preceding empirical overview shall not be read as suggesting that either the IMF's or the EU's preferences were more economically sensible. Rather, we intend to draw attention to the different understandings that IMF and Commission staff held both when programmes were launched and when they were reviewed. Aided by evidence from our interviews, we find that IMF staff advocated macroeconomic policies that were not only more flexible but also somewhat less contractionary than the EU's. While this is certainly true of fiscal policies, the evidence is more mixed in monetary policies because unilateral euroisation can be as pro-cyclical a choice for a country with a weaker domestic currency as maintaining its peg to the euro. Moreover, the IMF's new emphasis on inflation targeting has, as Daniela Gabor (2010) demonstrates, merely served to legitimise well-known orthodox monetary policies (see also Cordero, 2009). Overall, change in IMF policies has remained piecemeal and inconsistent in recent years (Weisbrot et al., 2009; Ortiz, Chai and Cummins, 2012; Grabel, 2011; see also IMF, 2009i). Our analysis, therefore, does not imply that IMF policies are significantly less pro-cyclical today than they were in the past, or even that the Fund has become a stronghold of counter-cyclical economic convictions. Our more modest claim is that the IMF promoted less pro-cyclical fiscal policies in joint programmes and was generally more flexible in its macroeconomic policy advice than the EU.

Mandates as rough templates: how flexible is crisis lending?

The IMF: tackling imbalances with a policy mix

The IMF's Articles of Agreement constitute the legal framework for its macroeconomic operations. The first article encompasses six overarching organisational purposes; most notable is arguably the fifth purpose, which defines the Fund's chief role as a form of global credit union (Copelovitch, 2010: 50, fn. 52): 'To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards …' (Art I(v)). The IMF's mandate is predominantly technical. In other words, the legal framework assigns to the IMF an exclusive responsibility for monetary policy, but is very open in not specifying derivative tasks in other policy areas. The IMF's bilateral and multilateral surveillance activities are representative of this technical approach. The IMF conducts — usually on an annual basis — Article IV consultations to survey to what extent member states meet their exchange arrangement obligations. These consultations shall support 'the continuing development of the orderly underlying conditions that are necessary for financial and economic stability' (Art. IV(1)).

The 'neutrality' of the mandate gives IMF staff enormous interpretative latitude in deploying macroeconomic tools. Most crucially, staff enjoy relative discretion to design conditionality by defining what 'adequate safeguards' shall mean in loan arrangements. This is partly the result of an ambiguous mandate: the subject of conditionality was neither explicitly referred to in the Articles of Agreement nor codified in subsequent amendments (Barnett and Finnemore, 2004: 57; Babb, 2003: 9—11, 2007: 141–142; Dell, 1981). Fund staff themselves contributed to this lack of more binding rules. Not even the introduction of the 1979 *Guidelines on Conditionality*, which have been revised a number of times, increased the coherence of conditionality because staff acted against the stated goal of imposing fewer conditions (Babb, 2003: 11, 24, endnote 12).

To this day, it is staff's prerogative to initiate Executive Board proceedings. Executive Directors consider a written staff proposal for a certain amount of funding for a member country to borrow from the IMF and the conditions for it to meet in return. Relying on their institutional experience and communication with Directors, staff members from the responsible departments draft any such proposal based on what they expect the Board to accept; proposals are usually endorsed by the Board. By setting the Fund's internal agenda, staff gain exceptional policy autonomy from member countries (Barnett and Finnemore, 2004: 50; Moschella, 2011b: 128).

But a technical mandate alone does not make for greater policy flexibility. As is evident from the above example of staff's interpretation of the *Guidelines*, it needs ‘policy entrepreneurs’ to make sense of the operational templates derived from organisational objectives. This frequently happens during or in the wake of crises. For the IMF, the 1997–8 Asian financial crisis had such an effect. Not only was the Fund faced with specific and more general criticisms, but it also experienced an unprecedented staff reduction (Broome, 2010: 38, 43–36). This crisis experience, as many interviewees at the IMF confirmed, set in motion a gradual rethink of the policy templates behind Fund operations. The latest global financial crisis only reinforced this process: it was perceived as just another crisis, albeit ‘the worst global crisis since the 1930s’ (IMF, 2009i: 3) originating in parts of the world that had long been spared of large-scale economic problems. As Manuela Moschella (2011b) documents, the Fund’s crisis response built on ‘lagged learning’: its macroeconomic policies were ‘the cumulative effects of previous policy choices’ (Moschella, 2011b: 131).

Emblematic of cumulative policy change is the Fund’s conditionality reform under the 2000 ‘Streamlining Initiative’. In the lead-up to the Asian crisis, the IMF had advocated ‘micro-conditionality’, and many of the IMF-supported programmes were conceived in the same vein during that crisis. In its wake, the IMF began to ascertain the limits of loan conditionality more thoroughly (Vreeland, 2007: 24–25; Interview #005: IMF country representative). The reorientation towards ‘macro-conditionality’ was nevertheless hesitant. According to a report by the IMF’s Independent Evaluation Office (IEO, 2007), the number and scope of conditions attached to loan arrangements remained extremely extensive until 2004. The IMF finally undertook several more reforms in line with the Initiative as a response to the latest crisis (Bird, 2009: 97–102). For example, ‘structural performance criteria’ were phased out in May 2009 (IMF, 2009e).

Because more and more conditions, such as ‘structural benchmarks’ and unlike the former ‘structural’ or the extant ‘quantitative performance criteria’ (Bird, 2009: 88, Fig. 82; IEO, 2007: 4), require no waiver from the Board in cases of noncompliance, staff enjoy additional discretion in its negotiations with country authorities (Interviews #002, #004).

Linked to the partial reform of conditionality has been the incremental overhaul and diversification of lending facilities over the past six decades (see Bird, 2003: 231–235). This often meant larger lending volumes or easier access to funds. The latest trend since onset of the crisis has been precautionary lending. Apart from the above-mentioned easier access to precautionary SBAs (as HAPAs), the IMF introduced in March 2009 the FCL, an instrument aimed at countries that meet the pre-set qualification criteria of ‘sound’ economic fundamentals (‘ex-ante conditionality’). Unlike an SBA, under which disbursements are phased, the FCL permits countries to draw substantial sums at any time and even all at once. ‘Qualified’ countries[14] have upfront access to the resources for one or two years without being subject to any ex-post evaluations; a mid-term eligibility review is due only for two-year arrangements. In short, FCL disbursements are not conditioned on future policy implementation. In addition, the new Precautionary and Liquidity Line (PLL) offers lending on terms tailored to the needs of countries ineligible for FCL funds.[15]

Ceilings on lending amounts were also raised during the crisis. When the Board approved the FCL, it also doubled the annual and cumulative access limits to 200 and 600 per cent, respectively, of a country’s quota (IMF, 2009d). Hungary, Latvia and Romania were all granted SBAs that exceeded – or would have exceeded[16] – even the new ceilings by far: the respective total support accounted for 1,015 per cent of Hungary's, approximately 1,200 per cent of Latvia's and approximately 1,111 per cent of Romania's quota. Allowing countries to 'overdraw' provides for more policy flexibility during a crisis.

The IMF has, at times, encouraged countries to balance cost-cutting measures with targeted social spending. This new emphasis, 'social conditionality' in IMF jargon (IMF, 2008b, 2010a), is to ensure that a basic level of social protection exists even in an economic crisis. It was in this spirit that the Hungarian, Latvian and Romanian programmes contained protective provisions for the poorest and most vulnerable societal groups (IMF, 2009c, 2010e, 2012). The incorporation of social concerns in policy programmes reveals a growing awareness within the Fund of the multidimensionality of economic performance: how well a country has weathered a crisis is no longer to be measured solely against monetary and fiscal achievements but also against the social effects of economic adjustments. While the organisation's commitment to such reform might so far have proved more rhetorical than substantial, the IMF has also become much more accepting of the use of capital controls by countries in crisis (Grabel, 2011).

Staff have been active to re-interpret the Fund's mandate in many ways since the Asian crisis. The revised policy mix with which the IMF sought to tackle country imbalances was the cumulative result of staff's many minor and major re-interpretations of its technical mandate before and during the latest crisis. While staff members' experiences as 'everyday' crisis managers shaped their view of the mandate, their re-interpretations were also grounded in some of the major analytical contributions of current IMF macroeconomic research.

Through a substantial body of economic analyses, the Research Department has disseminated more heterodox ideas within the organisation. Led by chief economist Olivier Blanchard, the department publishes widely on macroeconomic topics, in particular on how ‘macroprudential’ policies can be implemented. ‘Rethinking macroeconomic policy’ (Blanchard, Dell’Ariccia and Mauro, 2010) calls for the critical reassessment of inherited monetary, fiscal and regulatory wisdoms. Economic instability is now increasingly seen as originating at the systemic rather than the microeconomic level (De Nicolò, Favara and Ratnovski, 2012). This thinking influences the official policy framework, as evidenced by the Fund’s more systemic surveillance operations (Moschella, 2011b). With this in mind, the department engages in dialogue with economists and practitioners to explore new solutions to economic crises (IMF, 2011b).

The Commission and the ECB: saving the euro with orthodox measures

The organisational mandates of the European Commission and of the ECB are circumscribed by the European Treaties. The Treaty on European Union (TEU) provides that ‘[t]he Commission shall promote the general interest of the Union …’ (Art. 17(1)) as laid down in Art. 17(1–2): by applying EU law in general and its treaties in particular (‘guardian of the Treaties’[17]), administering the EU budget and representing the EU in its external relations (unless stipulated otherwise); and proposing legislative acts. The Commission’s mandate is thus more comprehensive and rule-based than the IMF’s (see also Abdelal, 2007: 208–209). The existence of an established body of primary, secondary and supplementary law, to which European institutions must adhere, confines the political leeway of Commission staff in BoP lending on behalf of the member states. Internal staff regulations convey a strong commitment to the supranational agenda (Hooghe and Nugent, 2006: 162), further curtailing room for autonomous Commission staff action.

As a supranational organisation, the Commission has to balance various –partly overlapping, partly conflicting – political agendas, ranging from health and consumer to monetary and fiscal policies. The comprehensiveness of a mandate that spans so many diverse policy areas (embodied in Commission departments called 'Directorates-General', DGs) reduces policy flexibility to quite some extent: while health and consumer policy might barely affect monetary policy, internal market or regional policy considerations are more likely to do so. In cases of joint lending, the Commission's mission teams therefore include staff not only from 'ECFIN' but also from additional DGs, such as 'COMP' (Competition), 'MOVE' (Mobility and Transport) or 'AGRI' (Agriculture and Rural Development) (Interview #030: European Commission staff member).

The Commission is not the sole organisation to represent the European Union in monetary affairs. The European Central Bank, tasked with maintaining price stability in the euro area, has performed some unprecedented functions since the outbreak of the crisis. Among them has been its role as an official negotiating partner in programmes for euro area member states. ECB staff have joined Commission and IMF staff on 'troika' missions to Greece, Ireland and Portugal.

The ECB has a precise mandate as defined by the Treaty of Maastricht. The Bank's foremost task is to ensure price stability, but also to 'support the general economic policies in the Union' as long as compatible with the objective of price stability (Art. 127 TFEU). Given a lack of a quantitative definition, it is understood among European central bankers that price stability is achieved with an average annual inflation rate of slightly below 2 per cent (McNamara, 2006: 179–180). This strong commitment to low inflation, underpinned by the ECB's institutional independence, symbolises a '"stability-oriented" economic paradigm that has empowered central banks' (Dyson, 2009: 8). As a result, 'soundness' is the Holy Grail of European monetary and fiscal policy (Dyson and Quaglia, 2010: 760).

The most recent global financial crisis gave both Commission and Central Bank staff the same opportunity for re-interpreting organisational objectives as IMF staff. Even though the existing legal constraints left supranational European staff less interpretative latitude, the mandates of the Commission and the ECB were still open to re-interpretation. This re-interpretation, however, intensified monetary and fiscal orthodoxy in member states. The prevalent view in Brussels of the ballooning European sovereign debt crisis soon became that one could not go back to 'normal' – that is, the crisis had been caused (mostly) by domestic policy failures that now jeopardised European integration at large (see, for example, Rehn, 2010a, 2011; Trichet, 2009, 2010). Lacking compliance with existing rules was identified as the key obstacle to more effective crisis prevention and solution (Rehn, 2010b: 3).

The main crisis lesson for Commission and ECB staff was to strengthen existing compliance mechanisms. Thus, they sought to reinforce financial stability in the euro area through incremental institutional changes to the governance framework (Salines, Glöckler and Truchlewski, 2012). For example, recent legislative initiatives by the European Commission (2011b, 2011a) focused on increasing compliance with the Stability and Growth Pact (SGP), which urges member states to achieve the two main fiscal goals enshrined in the Maastricht Treaty: a fiscal deficit of no more than 3 per cent and a public debt level of no more than 60 per cent of GDP. These proposals formed part of the 'six-pack' agenda, initiated by the Commission in 2010. Most notable is the novel, albeit partial, ‘automaticity’ of sanctions for noncompliant members: states against which excessive deficit procedures have been opened (EU, 2011a).

Contrast this focus on noncompliance with the previous acceptance of a tradition of rule bending by member states. In the 2000s, Germany – whose state representatives are now most outspoken about the perils of fiscal profligacy in the Union – and France ran excessive deficits. Nonetheless, the exposure of weak compliance mechanisms by the two largest members of the Economic and Monetary Union (EMU) already back then did not lead to a revision of the EDP. It was due to the enormous economic ramifications of the latest financial crisis that Commission staff interpreted their mandate in the way they did: towards a marked concern about the enforcement of existing rules to bolster the orthodox thrust of European economic integration. Consistent with this concern, Commission interpreted the implementation of pro-cyclical macroeconomic policies in borrowing member states as critical contributions to the overall stability of the Union.

The Commission strives to implement pro-cyclical policies uniformly across the Union for yet another reason. Contrary to the IMF’s more case-based economic assessments, the Commission must establish a ‘level playing field’ in crisis lending, knowing that any deviation from the principle of equal treatment would make necessary arduous political justifications. Preferential treatment might deteriorate long-term political relationships within the EU — or in the metaphorical words of one of our interviewees: ‘The IMF comes when there is a fire, they work there for a while, and they fix the fire, and they leave. We have a history before and a history after this big crisis …’ (Interview #006).

The ECB's main concern is the overall stability of the EMU. To this end, the ECB re-interpreted its narrow mandate in an ambiguous manner: despite, at times, intervening in currency markets to purchase sovereign bonds from troubled member states, the Central Bank supported the Commission's call for pro-cyclical policies in borrowing member states. With a sense of urgency, many supranational actors feared that ultimately nothing less than the monetary project itself was at stake. Accordingly, the ECB still exerted influence where member states outside the euro area were concerned. For example, when speculation over an end of Latvia's currency peg abounded, the ECB, though not an official part of the mission to the country, weighed in on the debate to prevent what it would have perceived as a dangerous precedent for the entire EMU (Interviews #003, #004). In other words, the ECB has tolerated a temporary departure from its own orthodox legacy, but without encouraging member states to emulate this move with counter-cyclical monetary and fiscal policies at the domestic level. The current debate, also within the Bank, about the conditions for members in return for future bond purchases is further evidence of this complementary approach.

The Washington Consensus acts as a normative anchor for EU policymakers attempting to safeguard the project of European economic integration. Central to this supranational project is the euro; it continues to rest not on policy flexibility to achieve certain outputs but on the level of compliance with a narrow set of rules once decided to be meaningful criteria for the stability of the euro area. In the course of the global financial crisis, European Commission and Central Bank staff re-interpreted their respective mandates such that adherence to these criteria forces borrowing member states to implement pro-cyclical monetary and fiscal policies. With this narrow re-interpretation, they pursued their central goal of stabilising the EMU as the institutional core of the European Union. This was in part a reaction to the increasingly popular mantra – voiced most prominently by German chancellor Angela Merkel – that Europe will fail if the euro fails.

Conclusion

Inter- and supranational organisations use their autonomy from member countries to pursue organisational objectives. Member states may address homogeneous material or immaterial preferences to two organisations, but these organisations may still not promote the same policies. The staff of one organisation tend to 'process' state preferences differently from the staff of another; vague mandates require permanent contextual (re-)interpretations of organisational objectives and (re-)evaluations of policy options.

Our analysis of joint IMF-EU lending to Central and Eastern European countries has illustrated this phenomenon, on which the state-centric literature on organisations cannot shed enough light. We have argued that IMF and European Commission, as well as Central Bank, staff re-interpreted organisational mandates in different ways in the global financial crisis. Despite the relative unity among the IMF's G5 members (see Copelovitch, 2010), there was ample room for Fund staff to devise a more flexible crisis lending approach that, drawing on previous policies, was less pro-cyclical on fiscal issues. Commission and ECB staff certainly had less room for their re-interpretations but then chose to further constrain their autonomy for the sake of promoting more pro-cyclical macroeconomic, particularly fiscal, policies. In closing, we briefly discuss two major implications of our findings.

First, our results dispel the myth that the Washington Consensus is tied to any one institution or a certain set of institutions, such as the IMF and the World Bank. Without empirical scrutiny of the cases that we have discussed, one might be left with the fallacious impression that the IMF once again embraced fiscal orthodoxy for borrowing countries when it did so less than the EU. In this sense, the future trajectory of the Consensus is uncertain (Babb, 2012). Second, the future of joint IMF-EU lending is equally uncertain and in flux. Multilateral cooperation, however, is likely to continue in this area, considering the sums already needed to keep smaller European economies afloat.

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Interviews

Interview #002: IMF staff member, Washington, DC, 9 September 2009.

Interview #003: IMF country representative, Washington, DC, 9 September 2009.

Interview #004: IMF country representative, Washington, DC, 8 September 2009.

Interview #005: IMF country representative, Washington, DC, 9 September 2009.

Interview #006: European Commission staff members and Acting Director, Brussels, 9 November 2010.

Interview #007: European Commission Director, Brussels, 9 November 2010.

Interview #010: German Federal Finance Ministry staff member, Berlin, 15 November 2010.

Interview #021: IMF country representative, Washington, DC, 23 March 2011.

Interview #025: IMF country representative, Washington, DC, 24 March 2011.

Interview #030: European Commission staff member, Berlin, 9 July 2012.

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Notes

1 During that period, we conducted a total of thirty nonstandardised semi-structured interviews on IMF-EU coordination and broadly related topics. Having promised our interviewees confidentiality, we refer to the interviews cited herein by general anonymous labels of professional position, such as 'IMF country representative' or 'European Commission staff member'.

2 Romania's first SBA (from May 2009 to March 2011) was followed up immediately by another two-year SBA.

3 Gould (2006: 5–13) discusses in greater detail competing theoretical explanations of loan conditionality, which applies to IMF policies in general.

4 The United States holds nearly 17 per cent of the total votes. The EU member countries account for about 31 per cent.

5 Unfortunately, we have to rely on oral instead of written evidence here: IMF Executive Board minutes become available only after five years unless 'classified' (IMF, 2010c: 659–660) so that those of interest have not yet been published. Neither the Council nor the EFC releases minutes and voting outcomes. Council proceedings are made public only 'where the Council acts in its legislative capacity' (Council of the European Union, 2004: Art. 7 with Art. 8–9), which does not apply to crisis lending. Likewise, the sessions of the EFC are subject to confidentiality according to Article 12 of its statutes (Dyson and Quaglia, 2010: 791).

6 Latvia is another illustrative example of the consequences of debt exposure. With about as much as 90 per cent of its outstanding loans denominated in foreign currency (IMF, 2009h: 10), it turned into an especially worrisome case for Sweden and other Nordic countries, which, through their banks, had become the

most exposed foreign creditors in the country. To avoid a currency devaluation, these countries offered bilateral loans to Latvia.

[7] Partly overlapping memberships point to a potential methodological problem: European countries are not alone at the IMF Executive Board. But as we have shown, the U.S. was rather indifferent as to the details of the loans to Hungary, Latvia and Romania. The remaining member countries seem to have had little leverage in these cases. Their biggest concern might have been that European members would get a ‘free ride’ relative to those countries that had previously shouldered harsh loan conditionality.

[8] See Leiteritz (2005) on how the Asian crisis affected the politics of capital account liberalisation at the IMF.

[9] Data available at <http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2011-12-31> (accessed 13 August 2012).

[10] Still, one arrangement can impose additional conditions that the other does not include.

[11] One minor exception was IMF (2009b: 11) staff’s divergent view on Hungary’s 2009 budget: it would have preferred ‘a slightly higher deficit target to limit the procyclicality of fiscal policy’.

[12] It is important to note that deficit figures can belie actual fiscal policies. A simultaneous GDP contraction that exceeds the amount of spending cuts (in real terms) produces a larger deficit, which is not the same as enacting counter-cyclical fiscal policies. Moreover, the IMF’s flexibility in revising initial deficit targets is amplified by its (over-)optimistic growth forecasts (Gabor, 2010: 822–823). We thank one reviewer for clarifying these related points.

[13] Exempted were ‘pensions and allowances for those accompanying handicapped people with a first degree handicap’ (EU, 2010: 6).

[14] To date, Colombia, Mexico and Poland have subscribed to the FCL.

[15] The PLL was launched in November 2011 as a replacement of the similarly designed Precautionary Credit Line (PCL), which had been in existence for just over a year (IMF, 2010b, 2011a).

[16] The loan arrangements with Hungary and Latvia were concluded (under the Emergency Finance Mechanism for ‘rapid assistance’) before the decision on access limits.

[17] The European Treaties, or ‘primary EU law’, do not constitute the only source of legal obligations for the Commission and the Central Bank. Other obligations (‘secondary law’) are derived from these Treaties, as well as from stipulations that lay outside the Treaties (‘supplementary law’; see <http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/l14534_en.htm>, accessed 8 August 2012).

Tables

TABLE 1. *Key features of the original IMF-EU loan arrangements with Hungary, Latvia and Romania*

		Hungary	Latvia	Romania
Sum total (in billions of €)		**20.00**	**7.50**	**19.95**
	IMF	12.50	1.70	12.95
		(62.5 %)	(22.7 %)	(64.9 %)
	EU	6.50	3.10	5.00
		(32.5 %)	(41.3 %)	(25.1 %)
	World Bank	1.00	0.40	1.00
		(5.0 %)	(5.3 %)	(5.0 %)
	Other multilateral institutions	—	0.10[a]	1.00[c]
			(1.3 %)	(5.0 %)
	Individual countries	—	2.20	—
			(29.3 %)	
Duration (first and last instalments)				
	IMF	Q4 2008–Q1 2010	Q4 2008–Q1 2011	Q2 2009–Q1 2011
	EU	Q4 2008–Q4 2009	Q1 2009–Q1 2011	Q2 2009–Q2 2011
Number of instalments				
	IMF	6	10	8
	EU	4	6	5

Notes: All of the parameters refer to the *original* IMF and EU loan arrangements, irrespective of later deviations from the original agreement, especially delays in disbursements and rescheduling activities. Unlike the IMF, the EU does not habitually disburse its instalments on a quarterly basis. As some quarters are skipped, EU loans feature a lower number of instalments in each case. This might amount to a single pause as in the case of Hungary (no scheduled instalment in Q3 2009); extreme front-loading as in the case of Latvia (no instalments in Q1 2010, Q2 2010 and Q4 2010); or semi-annual disbursements as in the case of Romania (no instalments in Q3 2009, Q1 2010, Q3 2010 and Q1 2011). All figures, including the percentages, are rounded to one decimal point.

[a] European Bank for Reconstruction and Development (EBRD).

[b] Czech Republic (€0.2 bn), Poland (€ 0.1 bn), Estonia (€ 0.1 bn); Sweden, Denmark, Norway and Finland (together €1.8 bn).

[c] EBRD, European Investment Bank (EIB) and International Finance Corporation (IFC, which is not mentioned in the 'Memorandum of Understanding between the European Community and Romania').

Sources: Data compiled from the original programme documents by the IMF (requests for SBAs with Executive Board decisions; Letters of Intent, LoIs) and the EU (Memoranda of Understanding, MoUs).

TABLE 2. *Disagreements over fiscal deficit targets (in % of GDP)*

	Hungary			Latvia			Romania		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Initial target	2.6*	3.8	3.0	5.3	5.0	3.0	5.1	4.1	3.0
revised to	*(2.9)*			*10.0*	*8.5*	*(6.0)*	*7.8*	*(6.4)*	*5.0*
	3.9					*4.5*		*7.3*	
IMF's preference*				13.0	12.0	9.5			

Notes:

Deficit targets and revisions are represented on an accrual basis in ESA95 (European System of Accountants) terms. A revision that was 'undone' through a subsequent one is in round brackets.

* Where explicitly stated in an alternative 'programme scenario'. For these figures, the IMF (2009f: 25, fn. 6, 67, Tab. 1) employs a cash deficit concept. As its use tends to yield slightly stricter – that is, lower – targets than ESA-based calculations, numerical deviations in the agreed targets for the same borrowing country are due to the choice of methodology. That the original document on the Hungarian SBA, as well as the country's LoI, mentions a target of 2.5 % on an ESA basis was apparently a typing error, which was corrected with the first review.

Sources: Data compiled from various programme documents by the IMF (LoIs; requests for SBAs and reviews) and the EU ((Supplemental) Memoranda of Understanding).

TABLE 3. *Major lines of conflict over the Latvian and Romanian programmes*

	IMF position	EU position
Latvia	Deficit target of 13 % of GDP in 2009; 3 % target to be achieved by 2014	Deficit target of 8.5 % of GDP in 2009; 3 % target by 2012
	Devaluation of Latvian currency advisable; euroisation or later euro adoption despite ERM II framework	Peg to be kept; no euro introduction without compliance with Maastricht criteria
Romania	Fiscal adjustment to be 'drawn out' if economically necessary	Deficit target of 3 % to be achieved as early as possible
	Greater use of 'revenue measures'	Public expenditure cuts preferable to tax increases
	EU structural funds potentially instrumental in addressing BoP imbalances	No use of structural funds for addressing BoP imbalances (especially because of insufficient 'absorption capacities')

Sources: IMF, EU (see Tables 1 and 2 above); authors' interviews.