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IMF in the Eurozone: A Case of Too Close to Fail?

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Abstract

The IMF is as much a product of (financial) history, as much as it is making (financial) history. In its latest foray in the Eurozone crisis, it has become the indispensable partner in the design, funding, implementation, and monitoring of programmes aimed to restoring fiscal and external imbalances. It has also taken most of the blame for programme countries' mixed implementation record. Embroiled in national politics and in the politics of austerity, the Fund is treading on thin ground, as it endeavours to better tailor its lending policies to the particular circumstances of monetary unions and retain its reputation as the global expert in restoring stability and growth.

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Introduction: The IMF needs a Good Crisis

In an interesting way, the Euro crisis was good for the IMF[1]. Right before the 2007-2008 global financial crisis, its role was becoming proportionate to its lending- and its lending was becoming insignificant. Even when the IMF stepped in to help Central and Eastern European countries with their severe balance of payments crises, propelling unprecedented cooperation with the EU (Lütz and Kranke, 2010), it still failed to make headlines (although it did make some waves, particularly over the IMF-EU disagreement on the Latvian peg). Engaging in the Eurozone, however, has effectively marked its come-back as a global player. Initially branded an 'outsider', it very quickly became an indispensable partner in a difficult partnership with Eurozone authorities: apart from the unprecedented financial resources that it committed to 'Europe', the Fund had the technical expertise to deal with an unprecedented situation- this included both a template for bailout programmes and a monitoring mechanism to see them through.

Critical to understanding the Fund's role in the Eurozone is to understand the organisation's global mission in a historical perspective. While its evolving identity has always been shaped by the kinds of global economic problems that it has had to deal with throughout its 65-year history- from the balance of payments problems of developing countries in the late 1970s, to the transition economies following 1991, and the emerging market crises of 1995-2002- the Fund has steadily been in the business of providing the public good of financial stability. It remains to be seen whether its involvement in the Eurozone will solidify a central role in the multilateral surveillance of 'rich', developed countries. While treading on the thin ground of Eurozone and national politics, however, the IMF has certainly made a point: it is a steady and steadying presence at times of financial distress, when international capital markets turn the tap off.

[1] The International Monetary Fund was set up near the end of WWII to foster a framework for economic cooperation that would shepherd its members away from the beggar-thy-neighbour policies and banking instability that had contributed to the Great Depression of the 1930s and the global meltdown that ensued. Evolving with the times, the IMF has steadily offered guidance, assistance and support against the trials and tribulations posed by globalization and economic development. An international financial institution with a near-global membership of 188 countries, the Fund has, in fact, managed to retain a central role in international financial architecture: it provides policy advice and financing to members in economic difficulties, while working with developing nations to help them achieve macroeconomic stability and reduce poverty.

IMF Supported Programs in Europe

As of March 14, 2013 the IMF had arrangements with 9 countries in Europe totaling about €108 billion or $141.1 billion.[1]

			Amount Agreed (billions)			Undrawn Balance (billions)		
Member[2]	**Effective date**	**Expiration Date**	**Euros (billions[3]**	**Dollars (billions[3])**	**As percent of Quota (billions[3])**	**Euros (billions[3])**	**Dollars (billions[3])**	**As percent of Quota (billions[3])**
Stand-By Arrangements								
Bosnia	9/26/12	9/25/14	0.39	0.51	200	0.27	0.36	140
Kosovo	4/27/12	12/26/13	0.10	0.14	154	0.01	0.02	22
Serbia	9/29/11	3/28/13	1.08	1.41	200	1.08	1.41	200
Romania	3/31/11	1/30/13	3.56	4.66	300	3.56	4.66	300
Extended Fund facility								
Greece	3/15/12	3/14/16	27.39	35.84	2159	22.55	29.51	1778
Ireland	12/16/10	12/15/13	22.41	29.33	1548	3.36	4.40	232
Moldova[4]	1/29/10	4/30/13	0.21	0.28	150	0.04	0.05	29
Portugal	5/20/11	5/19/14	27.34	35.77	2306	5.31	6.96	448
Flexible Credit Line								
Poland	1/18/13	1/17/15	25.33	33.15	1303	25.3	3315	1303
Extended Credit Facility								
Moldova[4]	1/29/10	4/30/13	0.21	0.28	150	0.02	0.02	11
Total			108.0	141.4		61.5	80.05	

Source: IMF staff calculations

[1] Totals may not add due to rounding.

[2] Arrangements with the Republic of Serbia, Romania and Poland are treated as precautionary by the authorities.

[3] Calculated by multiplying program amount in SDR by the respective exchange rate prevailing on March 14th, 2013.

[4] Extended Credit Facility- Extended Fund Facility blend arrangements.

Plus ça change, plus c'est la même chose

History repeats itself or does it?

Does history repeat itself? Many have paralleled the IMF's handling of the euro crisis with the international banking crisis of 1982. To save the international banking system, the criticism goes, the IMF and international banking authorities 'sacrificed' Latin America's growth for a decade- the heavily indebted countries avoided default but ended up with long-term depression. Today, saving the monetary union comes at the cost of crippling *its* periphery, economically and politically. What sort of 'salvation' is this, when the monetary union is composed of countries which are supposedly equal partners in a common institutional arrangement?

There are yet more parallels- it is perhaps more accurate to talk of 'historical lessons not learned'- to be drawn. Following the handling of the East Asian financial crisis of 1997-1998, the IMF came under severe criticism for the over-reaching loan conditions that it had administered, on top of negative evaluations that it had both misdiagnosed the causes of the crisis and the design of solutions (Broome, 2010: 43). While insufficient attention had been paid to weaknesses in the countries' banking sectors and how they adversely affected macroeconomic stability, the Fund was also forced to rethink the institutional prerequisites for a successful liberalisation of international capital flows. The prescribed medicine- austerity to restore confidence- was misguided, as dissenting economists struggled to be heard (Stieglitz, 2000). This was not a current account crisis- the IMF's hitherto area of expertise-but a capital account crisis: administering tight budget and money when demand was collapsing, high interest rates when the balance-sheet problem and credit crunch of affected banks and firms was worsening, and promoting banking and corporate reforms amidst market turmoil, predictably aggravated the region's economic downturn (Crotty and Lee, 2009; Wade and Veneroso, 1998).

There are obvious limits to these parallels. For one, the IMF has not been acting alone but in concert with its troika partners, the European Central Bank and the European Commission. In addition, the Fund has been called to operate in a monetary union which contains some of the most developed and advanced economies in the world; moreover, in this particular union, intra-European exchange rates are fixed and a number of adjustment mechanisms, including relative wage and price flexibility, labour mobility, fiscal policy, and capital market integration have been either not available or severely constrained. Still, the underlying rationale behind the IMF's crisis management in the bailout countries has been painfully similar to previous 'rescues': structural adjustment, quick bank resolution, and a re-packaging and re-serving of austerity.

It is a point of analytical and policy interest that, as much as the IMF is expected to have a template for reform- a corollary of its expertise, long-term experience in bailouts, and high caliber of its staff- it has also been criticized for having a 'template'. It is perhaps more accurate to speak of a 'one size fits all' approach which runs, some argue, wider than the Eurozone. A recent study of policy advice given by the IMF to the 27 European Union

countries in 67 Article IV Consultations[2], suggests a consistent pattern of policy recommendations for the four years between 2008 and 2011: these include first, 'a macroeconomic policy that focuses on reducing spending and shrinking the size of government, in many cases regardless of whether this is appropriate or necessary, or may even exacerbate an economic downturn; and second, a focus on other policy issues that would tend to reduce social protections for broad sectors of the population (including public pensions, health care, and employment protections), reduce labor's share of national income, and possibly increase poverty, social exclusion, and economic and social inequality as a result' (Weisbrot and Jorgensen, 2013:5). The complexity of the Eurozone crisis certainly makes generalisations for the Fund's work increasingly difficult to substantiate; equally, the Fund will increasingly have difficulty to hand out generalised prescriptions- particularly with the recession having moved from the Eurozone to the EU-27.

[2] The IMF's surveillance work in its present form was established by Article IV of the IMF's Articles of Agreement and revised in the late 1970s following the collapse of the Bretton Woods system of fixed exchange rates. Under Article IV, member countries undertake to collaborate with the IMF and with one another to promote stability. For its part, the IMF is charged with (i) overseeing the international monetary system to ensure its effective operation, and (ii) monitoring each member's compliance with its policy obligations.

The Programme Countries: A Mixed Record

The so-called 'one solution fits all' approach has predictably met, judged against programme results in Greece, Portugal, and Ireland, with varying degrees of skepticism and criticism. In December 2010, Ireland agreed to a comprehensive overhaul of its banking sector, ambitious fiscal adjustment, and growth-enhancing reforms, particularly on the labour market front, in exchange for a EU-IMF financing package, together with bilateral loans amounting to €85 billion for the 2010-2013 period (the IMF pledged €22.5 billion under an Extended Fund Facility[3]). Dubbed the Eurozone's bailout success story, Ireland has seen an annual increase of 0.9 per cent in GDP in 2012, while it remains on track to meet the government's commitment to a 2013 deficit ceiling of 7.5 percent of GDP and to correct the excessive deficit by 2015. While the government's market access has deepened- a 10-year benchmark bond was auctioned in March 2013 successfully , high public and private debts, low lending to households and SMEs, and inadequate progress in resolving non-performing loans, together with the specter of persistent high long-term unemployment make the medium-term growth outlook uncertain (IMF, 2013:1).

Portugal asked for a three-year 78 billion euro international bailout in May 2011 (the IMF has pledged €27.51 billion, under an Extended Fund Facility (EFF) arrangement), its government wholeheartedly adopting the new ideology, namely that fiscal consolidation is a precondition for sustainable growth, competitiveness, and employment creation. Two years later, the country has been repeatedly commended for its adjustment efforts in the troika's quarterly progress reports, yet the economy has shrank by 3¼ percent in 2012 and a further contraction of 2.3 percent is projected for 2013. Unemployment has risen to 17¾ per cent while the deficit target for 2013 has been relaxed to 5.5 percent, from an initial 3 percent. Public debt is forecast to reach 124 percent of GDP in 2014 (IMF, 2013: 6).

In a troika effort to ease exit from their respective programmes, both Ireland and Portugal have recently secured a deal, which sees the average maturity of their bailout loans extended by seven years. The extension, indicative of the troika's understanding of the big financing challenge that the countries face (Ireland needs to refinance €20bn per year from 2016-20, while Portugal has to raise €14.1bn in 2014 and €15bn in 2015) is supposed to 'smooth the debt redemption profile of both countries and lower their refinancing needs in the post-programme period' (Eurogroup, 2013); it is, effectively, their best shot for fully re-entering debt markets, particularly in the light of the refinancing risks stemming from developments in the Cyprus bailout.

Exceptions, extensions, and muddled bailout strategies, as witnessed in Cyprus, speak volumes about the Fund's ability to promote programme effectiveness- as a result, its reputation as a strict and neutral disciplinarian is on the line. Greece, the first Eurozone country to ask for a bailout in May 2010 and a second one in March 2012 has affected, in this respect, the most severe blow. With the first programme, the largest Fund programme

[3] The IMF provides assistance under an EFF, when a country faces serious medium-term balance of payments problems that are largely related to deep-rooted structural weaknesses. To help countries implement medium-term structural reforms, the Fund remains engaged with the member country for a longer time-period, both during the design and during the implementation of adjustment policies.

ever relative to quota, running off track amidst a serious political crisis, Greece has continued to adjust through recessionary rather than productivity boosting channels. The economy has contracted by 20 percent since 2008, while unemployment has risen to an unprecedented 26 percent. Reaching a primary budget surplus in 2013- the overarching policy goal which the country is theoretically on the way to achieving- makes for impressive fiscal retrenchment, particularly in the light of the government's slow progress in tackling tax evasion and a crippling recession, calculated at 6 percent for 2012 and forecast at 4¼ percent for 2013. Current account imbalances have come down and internal devaluation- an anathema for politicians and electorates in the periphery- has picked up pace. Debt sustainability, however, remains the big thorn, regardless of the IMF-EU self-congratulatory tones, following the 2012 PSI (Private Sector Investment) deal, 'the largest ever negotiated write-down of public debt' (Blanchard, 2012) and the November 2012 Eurogroup decision to lower the interest rate on the Greek Loan Facility and lengthen maturities on all European lending, to transfer profits earned by the ECB on Greek debt back to Greece and finally to implement a debt buyback program (Eurogroup, 2012). Bringing debt down to 128 percent of GDP by 2020- supposedly a corollary of these measures- is not likely to materialize without a return to sustained high growth. This is a huge challenge, considering Greece's chronic competitiveness problem and poor structural adjustment record- which repeated calls to 'strict' conditionality have failed to shake.

The IMF has, in fact, published, in May 2013, an 'Ex post Evaluation of Exceptional Access under the 2010 Stand-by arrangement', bravely cataloguing its failures in the Greek case. For one, the programme required the Fund's exceptional access criterion to be modified, as there were serious questions over debt sustainability in the medium-term; fearing that spillovers from Greece would threaten the euro area and the global economy, a proviso was added, namely that 'a high risk of international spillover effects provided an alternative justification for exceptional access'. In the event, the medium-term outlook for debt sustainability remained bleak, as the fiscal targets set proved too stringent and projections about growth, deflation, privatization receipts, and regaining market access were too optimistic. Ex ante debt-restructuring, however, was off the table; it had been considered by the parties to the negotiations but due to risks of contagion, moral hazard arguments, and fears that Greek bank recapitalization would exceed programme estimates, it was 'ruled out by the euro area'. As a result, when it did happen, its effect was tempered, while it provided a window for private creditors to reduce exposures and shift debt into the official sector. Finally, the troika arrangement posed problems for programme design. The euro area policy response kept evolving- most noticeably on debt restructuring and on relaxing the fiscal stance- , there was no clear division of labour or assignment of responsibilities across the troika, and, in comparison to the Fund's ability to form rapid policy recommendations, the EC 'tended to draw up policy positions by consensus, had enjoyed limited success with implementing conditionality under the Stability and Growth Pact, and had no experience with crisis management' (IMF, 2013).

Despite the fact that the blaming game has yet to produce a winner- the Commission has retorted with its own interpretation[4]-, Greece is in its sixth year of recession and the troika's

[4] Simon O'Connor, a spokesman for Olli Rehn, the EU's commissioner for economic affairs retorted: "the report ignores the interconnected nature of the euro area member states"; "private debt restructuring would have certainly risked systemic contagion at that stage" (Financial Times, 2013). In an interview to the FT, Commission Rehn further argued "I do not recall Dominique Strauss-Kahn

crisis management principles appear to be under constant wrangling and negotiation; it is appropriate to argue that the Fund has been reaping the seeds of an 'uncomfortable partnership' (Pisani-Ferry, 2011)- from a neutral broker called in to fix the problem, it has literally become a junior partner, its 'voice' proportionate to its lending. If the Greek 'Evaluation' is not a mea culpa with a cause, it is certainly an attempt, by a global organisation called to operate in a EU-dominated institutional setting, to signal that it has not lost its policy independence or autonomy vis-à-vis its major shareholders: repeatedly succumbing to European governments' and Eurozone authorities' calculations will no longer be the automatic option.

calling for an early restructuring of Greek debt but I do remember Christine Lagarde opposing it," (Financial Times, June 7 2013)

Leading or Following? Asymmetries of Adjustment and Power

One of the criticisms that bring this point home is that 'the presence of the IMF as part of the bailout programmes has given European leaders political cover for continuing to peddle ill-conceived, failing policies, delaying much-needed more sensible solutions to the crisis' (Goodhart, 2013). With its stance, the IMF has not challenged 'the current asymmetric and incomplete adjustment plan for the eurozone, which focuses solely on the peripheral economies' (Goodhart, 2013); nor has it called for slower deficit reduction in the programme countries, where the social cost of austerity has risen vertically. IMF officials would probably defend their method on the ground as 'pragmatic', 'a country-by-country approach that depends on factors such as the pace of growth, market pressures, debt levels, as well as the broader package of monetary and structural measures'[5].

The IMF has, in fact, been treading carefully, methodically building up a case against front-loaded austerity and its negative effect on growth. In its October 2012 World Economic Outlook, the Fund cited evidence from 28 countries, suggesting that 'the multipliers used in generating growth forecasts have been systematically too low since the start of the great recession' (IMF, 2012: 43). The policy implication was simple: fiscal cutbacks inflicted more damage on economic output than had been originally forecast. In the Eurozone environment of substantial economic slack, however, monetary policy constrained by the zero lower bound and synchronized fiscal adjustment across a number of countries, Fund economists warned that 'more work on how fiscal multipliers depend on time and economic conditions is warranted' (IMF, 2012: 43). As Fund economists admitted to a potential miscalculation problem, IMF Managing Director Christine Lagarde, who had warned about the negative effects of simultaneous budget cutting across the Eurozone and had even referred to 'automatic stabilisers', had to step in to reaffirm the necessity of fiscal adjustment in developed nations: "Call it adjustment, fiscal consolidation or austerity – it is exactly the same thing" (Financial Times, 2013).

A few months later, in January 2013, a highly technical analysis of fiscal multipliers, the short-term effects of government spending cuts or tax hikes on economic activity, came back to haunt the Fund and troika relations. IMF chief economist Olivier Blanchard and staff economist Daniel Leigh in a now over-publicised and over-interpreted IMF Working Paper investigated the relation between growth forecast errors and planned fiscal consolidation during the crisis. With the proviso that 'there is no single multiplier for all times and all countries' (Blanchard and Leigh, 2013: 20), they concluded that stronger planned fiscal consolidation has been associated with lower growth than expected; the relation was particularly strong, both statistically and economically, early in the crisis, an indication that fiscal multipliers were substantially higher than implicitly assumed by forecasters.

This conclusion 'confirming' the World Economic Outlook observation was repeatedly used as proof that the IMF had got it wrong; of all the programme countries, the focus turned to

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[5] Interview on Europe, Eurozone: Carrying Out Agreed Policies Can Help Restore Confidence, with the Director of the IMF's European Department Reza Moghadam, http://www.imf.org/external/pubs/ft/survey/so/2012/car101412a.htm, accessed 21 May 2013

Greece, where the economy had shrank at an annual 5.7 percent in the last quarter of 2012, combining for a 20 percent slump in real terms since 2008. In the political uproar that ensued, Blanchard himself came out to defend the IMF record: 'to associate this [Greece underperforming projections] with program design represents a fundamental misreading of the historical record and of the IMF's research on fiscal multipliers'. In the case of Greece, the impact of the multiplier was 'dwarfed by other unanticipated factors' given that Greece 'suffered a prolonged period of political instability and poor program implementation' (Blanchard, 2013).

Becoming embroiled in national politics was a definite minus for an organisation which had traditionally marketed itself as credibility-driven. IMF staff stepped into muddy waters-"But if we had better forecasts, would we have very different programs? I suspect the honest truth is that, because of financing constraints, probably only at the margins" (The New York Times, 2013). This admission by Blanchard inadvertently signaled that the Fund's independence, the very asset which supposedly had made the Fund an invaluable partner for solving the crisis, was clearly at stake. In fact, the Fund had repeatedly succumbed to troika politics: in the case of Greece, it was forced to draw the red line on 'basic' Fund policy, repeatedly- debt sustainability was the condition for the IMF's involvement in the second Greek bail-out. In Cyprus, the Fund was effectively side-lined as the proposed €10bn international bailout had to acquire the *external* vote of approval of Germany, with Wolfgang Schäuble, finance minister suggesting, in an 11-page letter to the Bundestag "all conditions for financial help to Cyprus fulfilled" (Financial Times, April 16, 2013).

Worse, the IMF has become embroiled in the wider political wrangling over austerity in Europe. While the Fund effectively triggered the debate, it has since shied away from presenting a clear stance on the pace of fiscal consolidation for the periphery countries. As a result, Germany and the fiscal hawks have been winning over the policy points, by the sheer force of the power asymmetries at play. The Fund's troika partners, the Commission and the ECB have also been tearing towards different directions, further confounding the issue and exacerbating uncertainty. The Commission has striven to balance its stance between multiple voices: softening austerity could be justified by 'rational economic theory' but then wealthier countries imposed political constraints that made it hard to do (Economic and Monetary Affairs Committee, 2013); at the same time, if some countries were allowed a slower pace of fiscal consolidation, then this could be a signal that the Commission was discounting the very serious risk of slipping back at a later date or of taking the calm in the markets more seriously than was warranted. The other troika member, the ECB, made its views public, following the May 2, 2013 decision to cut the interest rate on the main refinancing operations of the Eurosystem by 25 basis points to a record low 0.50 percent: "in order to bring debt ratios back on a downward path, euro area countries should not unravel their efforts to reduce government budget deficits and continue, where needed, to take legislative action or otherwise promptly implement structural reforms, in such a way as to mutually reinforce fiscal sustainability and economic growth potential" (Draghi, 2013).

All sides may soon realise that winning a policy point here and there is not the same as winning the political game. Politics has come back with a vengeance, exposing the greatest fallacy to which both the Fund and Eurozone authorities have perhaps too eagerly fallen for: voters would accept harsh austerity measures and record unemployment rates ad infinitum, or at least until market access was restored and the Eurozone saved. Easing up on drastic deficit-reduction plans, however, may well appear- in view of the protracted recession and

the unemployment crisis in Europe- to be the option by default. Greece has been given two more years to reduce its deficit below 3 per cent of GDP, while Portugal has received a second extra year to meet its fiscal targets. The Spanish government postponed its target date for bringing its fiscal deficit in line with EU rules by two years until 2016. France has been equally given two more years to meet its deficit targets, with the Netherlands an additional year. The great irony is that, as a result of this collective drive to austerity, sticking to the fiscal compact is being de facto annulled, seriously endangering the effort to restore confidence, the way the troika has interpreted it.

Global Recovery is the IMF's Responsibility, the IMF says

In reality, the IMF has been seeking to move beyond the simplistic austerity vs growth debate, particularly as the numbers have continuously failed to add up- at the expense of governments, their electorates, and the Eurozone project itself. In an attempt to re-gain the initiative and reprise its global role, the Fund has publicly suggested that the world is settling into a three-speed global recovery- involving 'those countries that are doing well (mainly the emerging markets and developing countries), those that are on the mend (including the United States, Sweden, and Switzerland), and those that still have some distance to travel (such as the Euro Area and Japan)'. Regarding the Euro Area in particular, European policy makers had taken important steps to improve confidence within a short time period- these involved the European Stability Mechanism, the ECB's Outright Monetary Transactions, the single supervisory mechanism, and the agreement to help relieve the debt burden of Greece. Fragilities remained however and if the 'poisoned chord' between weak banks and weak sovereigns was to be cut, to allow for monetary policy to be fully effective, and to assure financial stability, then the Euro area needed to move to a real banking union; 'this means complementing the single supervisory mechanism with a single resolution authority, and deposit insurance backed by a common fiscal backstop' (Laggarde, 2013).

Talking the talk may not be enough- is the IMF trying to shift the debate globally because it cannot shift its commitments 'locally'? While both the OMT programme and the banking union remain works in progress, the IMF (rightly) appears dumbfounded with Eurozone authorities' inability to understand how market sentiment works and how perceived debt sustainability can produce big shifts in market interest rates; it is also (rightly) skeptical with regard to Eurozone authorities' commitment to separating banking from sovereign risks. It remains a moot point, therefore, whether the Fund can 'dictate' inter-regional co-ordination- setting out global policy actions to stay ahead of the crisis, given that it has failed to dictate intra-Eurozone co-ordination. As the Eurozone's growth projections have been revised downwards once again (IMF World Economic Outlook, April 2013) the Fund lacks the compliance tools to make surplus economies boost domestic sources of growth; it consequently exhausts its strictness to deficit countries, which are dependent on its loans, for their financing.

To complicate matters, the Fund's house is hardly in order; some of its members have yet to complete the necessary steps to ratify the 2010 governance reforms, central to bringing the Fund's management in line with global economic realities and strengthening its legitimacy and effectiveness; in this respect, the Fund has remained vulnerable to a continuing criticism, namely that loans have tended to be larger and more frequent when a country has a bigger quota and more professional staff at the IMF and when a country is more connected politically and economically to the United States and other major shareholding countries of the IMF (Barro and Lee, 2005: 1245). Once and if approved, the reform package will result in an unprecedented 100 percent increase in total quotas[6] and a further shift of more than

[6] Each member country of the IMF is assigned a quota, based broadly 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.

6 percentage points in quota share to dynamic emerging market and developing countries. At the same time, work on a new quota formula is underway, following a comprehensive review of the current formula completed in January 2013; important progress was made in "identifying key elements that could form the basis for a final agreement on a new quota formula" (IMF, January 2013), yet no reform consensus emerged. The realignment is expected to be finalised in January 2014, brought forward two years, as part of the 15th General Review of Quotas. This will theoretically result in increases in the quota shares of dynamic economies reflecting their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole. While the process keeps stumbling on 'obstacles', serious credibility issues arise, the dynamic economies argue, with the present set-up: more than half of the Fund's current lending is going to one of the richest regions in the world. Committing extraordinary resources in order to help economically advanced western economies signals, against the long-standing and repeated European pledges to reform IMF governance, that the disproportionate political influence of western European governments remains alive and well.

CONCLUSION: IMF-EU entanglement, too close for comfort?

The Fund has been back with a vengeance, after several years in the 2000s, during which its relevance was often and openly questioned. The return to the limelight has brought, as any careful observer would have expected, a new set of burdens. The biggest one remains the Eurozone, where the Fund has committed extraordinary resources, energy, and time. The Fund has also staked, probably inadvertently, its newly found, post-2008, credibility on saving the euro.

Critics argue that the Fund is currently suffering from European bias and analytical risk aversion. This may be too harsh; after all, by propping up Europe, one of the pillars of the world economy, it is taking its role of safeguarding global financial stability seriously. Thanks to the IMF, fiscal and structural adjustment in the Eurozone has proceeded, together with, in the case of Greece, debt restructuring; the Fund's presence has assuaged, to an extent, moral hazard fears- official bailout money has not gone unaccounted for, while belt-tightening measures have created serious disincentives for future imprudent behaviour. The IMF has also been far more vocal about rebalancing austerity with growth, even if it has been less clear as to where to draw the fiscal line. At the same time, it has shown that there are limits to what it can do. It cannot, for example, make the surplus countries of the North boost demand and share the burden of adjustment; nor can it force (as some IMF faithful have suggested) the speedy implementation of the agreed Single Supervisory Mechanism or, for that matter, the direct injection of equity into troubled banks through the European Stability Mechanism–this would appear to meddle too heavily with the Eurozone's functioning.

The IMF-EU entanglement is, by all accounts, a difficult one. 'Inside' the workings of the IMF, emerging and developing economies are loath to see what they interpret as 'preferential treatment'- a symptom of Europe's over-dominance in the governance structure and its long-term reluctance to reform it. Inside the Eurozone, the IMF has been made the political scapegoat par excellence- 'its' policies have resulted in recession, record levels of unemployment, and social unrest. Why then has the Fund shown no signs of disentangling itself from the Eurozone? It probably does not want to or cannot. Substantial financial resources have gone to the Eurozone – this is money that the Fund needs to get back. Besides, the pursuit of financial stability is too serious a business to be left at the markets or Eurozone authorities alone. The Fund is too close (to the Eurozone) to fail.

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