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Not Going it Alone: The Dynamics of EU-IMF Interaction over 20 Years of Monetary Unification

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1. Introduction

In recent years, the International Monetary Fund (IMF) has become deeply entrenched in Europe's political landscape. The last weeks alone have seen the IMF signing off on Ireland's latest programme review, backing the European Central Bank's (ECB) interest rate cut and urging the euro area to speed up the establishment of a banking union.[1] Yet, the Fund's role remains controversial. Justice Commissioner Reding appealed for the IMF's retreat from Europe because "fundamental decisions, for example on whether to fire tens of thousands of public employees, should not be taken behind closed doors".[2] The Fund's influence on the European Union (EU) has grown to a point that parliamentarians in the European Parliament (EP) have called for an inquiry into its involvement in the 'Troika', the enhanced cooperation with ECB and European Commission over the euro rescue.[3] However, this has not always been the case. During the crisis in the European Exchange Rate Mechanism (ERM) in 1992/1993, the major European countries "did not view the IMF as a necessary or valued source of financial advice" (Boughton 2012, p.174) – even "aggressively excluding the IMF from any role in their discussions" (Mussa 2008, p.2). By now, the relationship between the EU and the IMF has changed fundamentally, raising important questions about the efficiency and legitimacy of decision-making in the EU.

This paper assesses EU-IMF interaction over the course of European monetary unification. Thereby, it adds to a growing body of literature on the external dimension of EU policy-making which, so far, has mainly focused on the United Nations (UN) and the World Trade Organization (WTO), while the IMF has received only limited attention.[4] As a first step of such a project, this paper addresses the following question: how have EU-IMF relations changed over the last 20 years? *First*, the paper asks who acts in EU-IMF relations. It finds that member states remain the primary, but not the only actors. *Second*, it provides a descriptive account of EU-IMF relations in the observed period. In doing so, the paper seeks to operationalize the concept of 'interaction' by looking at both its institutional and functional dimension. Anecdotal evidence suggests that institutional and functional interaction have not

[1] Wall Street Journal, "Ireland Passes Final Review By Troika", 7 November 2013; Reuters, "IMF cheers ECB rate cut, sees slack in euro zone" 7 November 2013; Reuters, "EU must speed up banking union to gain trust, IMF says", 9 October 2013.

[2] Deutsche Welle, "Troika Tensions Heat Up", 6 November 2013.

[3] EUObserver, "EU Parliament To Probe Bailout Troikas", 28 October 2013.

[4] Notable exceptions include the EU's representation on the IMF's Executive Board (Lieb et al. 2011) and the reform of the IMF quota system (Bini Smaghi 2006a; Wouters & Van Kerckhoven 2013). Recent single issue studies on EU-IMF interaction focus on emergency lending (Seitz & Jost 2012), the IMF's involvement in Eastern Europe (Lütz & Kranke 2013) and the early years of the Economic and Monetary Union (Broome 2013)

developed in parallel, i.e. that the increase in day-to-day engagement between the IMF and the EU through the activities of surveillance, lending and technical assistance has not corresponded to formalization of EU-Fund relations. In terms of the timescale, the paper roughly follows the stages of European monetary unification, although earlier developments are also taken into account.

2. Who interacts between the EU and the IMF?

In attempting to observe change in the EU's engagement with the IMF, the first question is: who acts? This by no means a triviality, since there is little consensus over the presence and actorness of the EU in global fora (Ginsberg 1999, p.432). Being a country-based institution, the IMF sees the EU's member states (MS) as its main interlocutors. The state-centric focus of traditional International Relations theory has, however, been criticized for its "neglect and underestimation of the EU's role in world politics" (Bretherton & Vogler 2005, p.12; Rosamond 2005, p.3). Instead, some authors argue that the EU constitutes a "sui generis" entity as an international actor (Marsh & Mackenstein 2005, p.56; Wunderlich 2012).[5] Mirroring the divide between intergovernmentalist and neo-functionalist theories of European integration, the EU is often presented in its external relations either as a forum which merely facilitates coordination between the component states, or as a polity in its own right. More helpful is a third approach which conceives of the EU as an "evolving entity, composed of numerous issue areas and policy networks, with varying degrees of 'actorness' across issues and time" (Jupille & Caporaso 1998, p.214).

What tilts the balance between the primacy of the states and supranational institutions in the EU's external representation? The legal arrangements are a good starting point. From the EU's point of view, the degree of legal competence delegated to EU institutions is of primary importance, ranging between exclusive, shared and national competences. Multilateral institutions may recognize the EU as a "member or contracting party", "virtual member or enhanced observer" or "ordinary observer" (Emerson et al. 2011, p.3). However, the question of who acts on behalf of the EU vis-a-vis international institutions "is not only a legal but also an empirical question to be clarified case by case" (Jorgensen et al. 2011,

[5] A number of recent studies on the EU's relations with international organizations treat the EU as a unitary actor. While policy differences between member states are alluded to, they are not incorporated into the explanatory models which speak of "EU-internal/EU-external"(Jorgensen 2009, pp.10–12) or "EU-exogenous" and "EU-endogenous" factors (Blavoukos & Bourantonis 2011, p.3). Even the most comprehensive assessment of EU-IO relations does not question the unitary conceptualization of the EU (Jorgensen & Laatikainen 2013).

p.601).[6] A recent attempt to assess the EU's recognition as an actor in international institutions focuses on its "action capability" – its ability to "acquire control over governance resources and at least some autonomy from its member states" – rather than on its formal status (Gehring et al. 2013, p.2).

In the area of monetary and financial affairs, the EU's external representation is a complex affair. This has four reasons. *First*, the international monetary and financial system is characterised by "overlapping sets of institutions and groupings in which participation and representation are heavily influenced by political and historical circumstances" (Eichengreen & Ahearne 2007, p.128). Established institutions such as the IMF pre-date the recent leaps in European monetary unification by decades. *Second*, the character of the governance of Europe's external economic policy is "fragmented" (Sapir 2007, p.xiii). Unlike policies such as trade and competition, where the EU enjoys exclusive competence, "authority in the financial sector is divided between the MS, the ECB, and, to a lesser extent, the Commission" (Chang 2009, p.201). Institutional competition is rife as the crisis has seen power shifting between EU institutions (Puetter 2012a). A third layer of complexity is added by the fact that not all 28 EU countries are integrated to the same extent. Although the members of the euro zone have agreed to total delegation of monetary sovereignty, the coordination of fiscal and structural policies still lies primarily with the Commission, which "makes the issue of external representation of economic policies quite a complicated endeavour" (Bini Smaghi 2006b, p.261). Finally, there is the dual role of individual member states who can make tactical use of their parallel memberships of, say, the monetary union and the IMF. Germany, for instance, reputedly "worked behind the scenes at the IMF to assure that the conditions attached to its assistance [to Greece] would be rigorous" (Stone 2011, p.127).

On the side of the IMF, the picture is multifaceted. There is no agreement over the key drivers of IMF behaviour. Some studies have focused on the role of powerful states with large internal markets (Drezner 2007) and exit options (Stone 2011); on bureaucratic politics and staff autonomy (Barnett & Finnemore 2004; Chwieroth 2009) and on the principal-agent relationship between members and staff (Martin 2006). Other authors explain IMF behaviour through a 'trilateral model' that includes powerful governments, the institutional environment and borrowing governments (Woods 2007); through 'bilateral co-evolution' between ideas

[6] Not least due to the great number of institutions the EU interacts with. In 2011, the European Commission's database of treaties recorded 249 multilateral treaties and 649 bilateral treaties (Emerson et al. 2011, p.3).

and domestic validation (Moschella 2012); or through preference heterogeneity between the 'collective principal' of G5 states and staff preferences (Copelovitch 2010).

These views illustrate the need of looking beyond unitary conceptions of both institutions in order to measure variation in EU-IMF interaction. While states remain the primary units of analysis, other actors – including the staff of the IMF and EU institutions, the ECB as well as domestic institutions and financial markets – may play an equally important role. Policies such as the IMF surveillance of the euro area case in point, as they involves both country reports covering national policies and a euro-area report addressing euro area and EU policies (Pisani-Ferry et al. 2011, p.1).

3. Channels of EU-IMF interaction

So far, the paper has purposefully referred to the 'interaction' and 'relations' between IMF and EU. This neutral wording reflects the idea that both institutions engage through various channels with differing formality and visibility. In addition, the cooperation takes place both within and outside the EU. The next section aims to disentangle this concept by dividing EU-IMF interaction into two separate analytical dimensions:

Institutional interaction addresses the institutional structures through which have EU and IMF engaged with each other. This includes formal cooperation mechanisms, as prescribed by the respective treaties, as well as informal channels of coordination that have arisen spontaneously (i.e. not stipulated by rules or guidelines).

Functional interaction looks at the interaction through the performance of the Fund's thee main functions: surveillance, lending and technical assistance. It focuses on the extent to which the IMF and the EU have engaged with each other – or ignored each other – over the course of monetary unification. By focusing on the output of EU-IMF interaction, it explores the differences between legal arrangements and observed behaviour.

3.1 Institutional interaction

Institutional interaction is informed by an understanding of international institutions as "persistent and connected sets of rules (formal and informal) that prescribe behavioural roles, constrain activity and shape expectations" (Keohane 1989, p.163). It therefore refers to the formal and informal processes of engagement and mutual influence which have developed between the EU and the IMF. While institutional interaction does not reflect the extent to which the two institutions have engaged with each other in practice, it nevertheless serves as a framework for functional interaction to take place.

The most visible form of institutional interaction is the formal concept of *membership*. Representatives from each of the 188 member countries form the Board of Governors, the highest decision-making body of the IMF which meets once a year to decide on fundamental questions such as quota increases or changes to the Articles of Agreement.[7] It is advised by two ministerial committees – the International Monetary and Financial Committee (IMFC) as well as the Development Committee (joint with the World Bank). Day-to-day decision-making power resides with the Executive Board ('Board'). Its 24 members include five Executive Directors ('Directors') from the member countries holding the five largest quotas (the US, Japan, Germany, France and the UK). The other 19 directors are elected to represent the remaining members through 'constituencies'. The Board operates on consensus, but votes may be taken. A member's voting power is determined by its contributions to the Fund ('quota share'), which are, in turn, based on economic size and subject to regular reviews.

As the overview of IMF governance shows, the IMF today remains a country-based organization. Accordingly, Article II of the Articles of Agreement clearly states that only "countries" are eligible for joining the Fund. While the IMF statutes would allow for member states that have formed monetary unions to pool their representation on the Board (Emerson et al. 2011, p.70), the members of the euro area have so far opposed to give up their seat at the IMF table. For this reason, and unlike in the WTO, the EU is not formally represented in the IMF. Due to this lack of formal recognition, some observers dismiss the EU as a "non-actor" within the IMF (Gehring et al. 2013, p.12). Even so, there are good reasons for exploring the institutional interaction between EU and IMF in more detail. As the following section shows, interaction has evolved 'below the radar' of full membership. A steady increase of informal contacts over the three stages of the Economic and Monetary Union (EMU) laid the groundwork for an intense collaboration since the onset of the financial and, later on, the sovereign-debt crisis.[8]

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[7] The description of IMF governance draws from the fact sheets "The IMF at a Glance" and "How the IMF Makes Decisions" from <www.imf.org>. A comprehensive study of IMF governance is Lamdany & Martinez-Diaz 2009. The 2010 reform of the IMF's governance and quota system, which envisages two fewer Board members from advanced European countries and an election, rather than an appointment, of all Executive Directors, has not yet taken effect mainly due to US opposition.

[8] For reasons of space, this paper refers to the various stages of European monetary integration only in passing. For comprehensive accounts see Moravcsik 1998; Dyson & Featherstone 1999; Chang 2009 and James 2012.

Before EMU (1945 to 1989)

Right from the signing of the original Articles of Agreement in December 1945, European members were strongly represented in the Fund. Out of the 35 'original members' (Article II:1 of the Articles of Agreement), nine were European.[9] In the following year, thanks to their "disproportionate share of international trade and financial transactions", European states assumed a leading role in the IMF (Chang 2009, p.200). Despite minor revisions to the IMF's statutes over the years, this situation never changed fundamentally. As Europe's economy strengthened and economic integration progressed, its joint quota shares increased steadily (Wouters & Van Kerckhoven 2013, p.222). Furthermore, Europe's privileged position was cemented by an informal understanding that the MD was always to come from Europe.

Europe's strong role in the IMF did not, however, guarantee a significant influence over the international monetary system. The collapse of the Bretton Woods system of fixed exchange rates in the 1970s marked the end of the Fund's influence over global monetary cooperation. Instead, a fragmented and dollar-based system emerged in which a combination of flexible exchange rates, independent monetary policies and booming financial markets replaced the Fund as its anchor (Pauly 2009, p.959). Thereby, a new division of labour emerged in the 1980s: while financial markets signalled the necessity of balance of payments adjustment, monetary cooperation shifted to ad-hoc agreements and new institutional arrangements such as the 'G-groupings' which were strongly influenced by the United States. In response, Europe's desire to increase its influence on the international monetary stage increased. One of the motives for monetary integration was that Europe, given its economic weight, no longer wanted to act as a "junior partner" to the United States in the international monetary arena (Chang 2009, p.66). Accordingly, the Delors Report from 1989, which defined the objectives and stages of EMU, expressed a desire to "increase the role of the Community in the process of international policy concertation", in order to "make full use of its position in the world economy and to exert influence on the functioning of the international economic system" (Delors 1989, p.25). But although the report stressed that "the Community would have to be able to speak with one voice", it did not directly address the issue of Europe's fragmented representation in the IMF.

[9] Namely: Belgium, Czechoslovakia, France, Greece, Luxembourg, Netherlands, United Kingdom, Yugoslavia and Poland. Later on, Denmark, Italy, Finland and Austria joined as well, still in the 1940s; Sweden, Germany, Ireland and Spain in the 1950s. Portugal and Cyprus followed in the 1960s; Romania in 1972 and Hungary in 1986. The remaining Eastern European countries joined shortly after the end of the Soviet Union. The last European country to join the IMF was Montenegro in 2007. A full chronological list is on <www.imf.org>.

Stage One and Two of EMU (1990 to 1998)

The establishment of the EU with the Maastricht Treaty in 1993 had "little influence on the position of European Countries within the IMF" (Wouters & Van Kerckhoven 2013, p.222). The Treaty established "no specific regime for the Community's relations with the IMF" (Steinki 2003, p.114). As the EU considered the IMF a matter for the states, and not for the Community, the Fund showed little inclination to take the initiative, which in combination led to a "convergence of immobilism" in Brussels and Washington during the early years of EMU (Louis 2007, p.4). Critics call the Treaty "regrettably uncommunicative" with regard to EMU's external representation: instead of designating this function to a single body, the Treaty "lays down a procedure for resolving the issue of external representation at a later date" (Cohen 2008, p.50), leaving "up in the air" the question of "who will be responsible for international cooperation in managing financial and currency crises" (Henning 1998).[10]

In the five years between the ratification of the Maastricht Treaty in 1993 and the end of Stage Two of EMU in 1998, interaction developed in separate ways. On the formal level, there was no progress in consolidating the external representation of EMU. An attempt by the Commission to "establish a coherent framework of euro area representation" was opposed in 1998 by member states in the European Council (Bini Smaghi 2006b, p.266).[11] However, a grouping of all EU countries' representatives in the Board – called EURIMF – was established in 1998 to foster EU coordination through the preparation of common position papers ahead of meetings of the Executive Board (Eichengreen & Ahearne 2007, p.135). On a more informal basis, interaction was strengthened in two respects. The IMF staff, unfazed by the reservations of major shareholders (particularly the UK and Germany) towards formalized relations, initiated an "informal process of regional consultation" with the Economic and Financial Affairs Council (ECOFIN) based on informal contacts and internal proposals for enhanced dialogue (Broome 2013, p.596). Also, the European Monetary Institute (EMI), the ECB's precursor, met regularly with IMF staff to discuss the progress of EMU (Boughton 2012, p.123).

[10] Except for one mention of the IMF in the ESCB statute and a number of general provisions on the external relations of EMU (Steinki 2003). In the consolidated version of the Treaty on the Functioning of the European Union (TFEU), the relevant Article is 138.2 TFEU, which states that "The Council, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences. The Council shall act after consulting the European Central Bank".

[11] The Commission had proposed that "the Executive Director of the member state holding the euro area presidency would represent the euro area in Executive Board meetings assisted by a representative from the Commission", which the Council rejected "on the grounds that accepting it would be seen as ceding authority" (Eichengreen & Ahearne 2007, p.135).

Stage Three of EMU (1999 to 2006)

The formal relationship between the IMF and the members of the euro area was again called into question with Stage Three of EMU. As the ECB took over from the EMI and the 11 participating currencies were merged, the Executive Board in late 1998 discussed the implications for IMF membership. It concluded that "the Fund is a country-based institution, and the transfer of monetary powers by members of the euro area to the institutions of EMU will not affect their legal relationship with the Fund under the Fund's Articles of Agreement".[12] Instead, the Fund agreed to the first (and so far only) upgrade in its formal relationship with the EU. Effective January 1999, the ECB was granted observer status on the IMF Board and subsequently appointed a permanent representative in Washington in February 1999. This allowed the ECB "a degree of input into IMF decision-making processes without granting 'full' membership with voting rights" (Broome 2013, p.601). The ECB's attendance was restricted to meetings on euro area issues, of which the ECB's definition was initially broader than the Fund's (Boughton 2012, p.123). In addition, the ECB was occasionally granted the right to speak at IMFC meetings (the IMF's steering committee), but only when a member of the euro area gave up his seat (Bini Smaghi 2006b, p.266).

On the part of EMU, the European Council agreed in December 1998 that "the Executive Director of the member state holding the presidency of the Eurogroup would speak up on matters specifically related to EMU" (Hodson 2011, p.102). Nevertheless, the demand for a better European coordination of IMF-related issues between member states grew as the monetary union consolidated in the years following the introduction of the euro. In response, a body called SCIMF was established in 2001 as a working group and later in 2003 as a permanent subcommittee of the Economic and Financial Committee (EFC) (Eurodad 2006, pp.10–12). Bringing together officials from finance ministries, central banks, Commission and the ECB, the SCIMF "prepares common understandings on a range of issues from crisis prevention to inter-institutional cooperation" (Chang 2009, p.66). Critics maintain that the informality of the SCIMF – its common understandings are not binding for European Directors at the IMF – as well as the 6-weeks intervals between its meetings demonstrate the "limits of soft coordination" on IMF issues (Eichengreen & Ahearne 2007, p.135). However, a report by the IMF's evaluation office paints a more positive picture. In the SCIMF framework, the IMF "enjoyed extraordinary access to policy discussions of the EFC". Thanks

[12] Concluding Remarks by the Acting Chairman of the IMF Executive Board Meeting 98/101 on 21 September 1998, quoted by Kiekens 2003, p.4.

to an informal arrangement, the Director of the IMF's European Department was "the only outside entity to be regularly invited to attend Eurogroup meetings" (IEO 2006, pp.34–35).

Even though the coordination of EU positions was improved, the issue of formal EMU representation at the IMF remained unresolved. Repeated calls by the Commission and the ECB for a single euro bloc in the Executive Board were rejected by the European Council. Influential European shareholders such as Germany insisted that the creation of a single seat for the euro area would reduce their influence in the IMF.[13] Critics maintained that "as long as no 'single voice' has the political authority to speak on behalf of the Euro Area, EMU will continue to punch below its weight"(McNamara & Meunier 2002, p.850; Cohen 2008; Bini Smaghi 2004).[14] Former Eurogroup head Juncker deplored the absence of a single representation of the euro area at the Fund: "It makes us look absolutely ridiculous. We are regarded as buffoons on the international scene".[15] However, the relative stability of the euro area provided no incentive to change the EMU's representation at the Fund. As Hodson notes, "international economic policy coordination is a scarce commodity, especially during periods of apparent economic calm" (Hodson 2011, p.96).

Financial and sovereign-debt crisis (2007 to 2013)

The growing detachment between EU and IMF ended abruptly with the onset of the financial crisis in 2007-2008. As the bursting of the US housing bubble and the collapse of major US banks wreaked havoc with Europe's economy, the IMF provided external financial assistance to a number of European countries – including four euro members – in conjunction with the European Commission and other institutions. Although this is examined in greater detail in section 3.2, it is for now interesting to examine the institutional implications (or rather lack thereof) of the recent cooperation between the IMF and the EU over the euro rescue.

When Hungary, Latvia and Romania called for emergency financing in late 2008 and early 2009, the IMF and the EU could not rely on existing formal coordination mechanisms. Instead, the provision of joint aid programmes, including discussions over programme design and monitoring, had to be agreed through ad-hoc negotiations (Viterbo & Costamagna 2012, p.9). Nevertheless, coordination appeared swift and efficient as the EU "moved within a matter of days to provide balance of payments support" (Hodson 2011, p.105). To improve

[13] Deutsche Welle, "Germany Opposes Single Voice for Euro Countries at IMF", 16 September 2006.

[14] An opposing view is Hodson 2011, who finds that the lack of a unified representation did not prevent efficient policy coordination by European members of the IMF during the financial crisis.

[15] EUObserver, "Eurozone countries should speak with one voice, Juncker says", 15 April 2008.

collaboration over the use of the EU's balance of payments facility, the Commission in 2009 published guidelines for EU-Fund coordination which, however, did not lead to a formalization of EU-IMF interaction. The guidelines made clear that its procedures "remain independent for the EU and the Fund".[16]

Collaboration proved difficult when Greece, a member of the euro zone, found itself in the mire of the crisis in 2010. As a euro member, Greece had no access to the EU's balance of payments support mechanism. After an initial attempt by the EU to solve the Greek problem without external assistance failed, a common understanding had to be reached between the IMF, the European Commission and the ECB over the details of the rescue programme. Since the IMF still had "no formal mechanism for negotiating directly with the European Commission", negotiations had to rely on informal processes (Lamberte & Morgan 2012, p.13). This time, it took "three long months of haggling between member states before the terms of a rescue package for Greece were finally hammered out" (Hodson 2011, p.105).

The agreement over Greece also involved an institutional innovation: a joint committee called 'Troika' was tasked with monitoring the progress of EU member states in meeting the conditions of their rescue programmes. However, it is difficult to see the Troika as a formalization of IMF-EU relationships. There is still no formal understanding detailing the respective roles and responsibilities (Viterbo & Costamagna 2012, p.10). Evidence about the functioning of the Troika is hard to come by. Interviews by Bruegel suggest that "there is no strict division of labour between the three institutions". The IMF brought its "programme technology" to the table, which the Commission had to familiarize itself with at first. Both institutions "compute the financing needs of the countries separately, thereby introducing checks and balances at a technical level". The ECB "pays particular attention to financial-sector issues, especially the application of global capital standards" (Pisani-Ferry et al. 2013, p.24). But although the staff teams worked together during their monitoring missions, the Troika members publish separate declarations, which made it difficult for the markets to interpret the common policy and the status of the reform progress (Seitz & Jost 2012, p.22).

A further institutional innovation brought about by the crisis is the establishment of regional financing arrangements (RFAs). After the ad-hoc solutions for Eastern Europe in 2008/2009 and Greece 2010, the EU created new mechanisms to support financial stability: in May 2010 the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF); in October 2012 the European Stability Mechanism

[16] EU Guidelines on EU-Fund coordination, ECFIN/G/C ARES(2009) 365646(REV), quoted in IMF 2011, p.35.

(ESM); as well as a balance of payments assistance for non-euro members. The RFAs all operate similarly, but differ in their legal status, financing and governance (see Table 1).[17]

With regard to EU-IMF interaction, it is interesting to determine the role of the Fund in shaping them and how cooperation has been institutionalized. In terms of their design, the Fund did indeed provide "oral advice" (Pisani-Ferry et al. 2011, p.32). Their functioning is clearly modelled on IMF lending. A request for assistance by a member country is followed by the signing of an agreement that establishes strict programme conditions. Disbursements are paid in instalments, subject to regular progress review. In fact, the ESM Treaty explicitly stresses the similarities with IMF practice in three instances (Salines et al. 2012, p.675).

As far as formal Fund involvement is concerned, a trajectory away from the Fund is observable. While the EU's balance of payment facility is not legally tied to IMF disbursement (Volz 2012, p.10), joint programme development has developed "as a matter of policy and practice" (IMF 2013b, pp.18–19). The other Commission instrument EFSM "explicitly states that activation will be in the context of a joint EU/IMF support" (IMF 2013b, pp.18–19), although members need to consult with the Commission first. In the case of the EFSF, the relation is less formalized, as it "envisages provision of its support in conjunction with the Fund" (IMF 2013b, pp.18–19).

The IMF's role is even further reduced in the case of the ESM. Although "active participation of the IMF will be sought both at technical and financial level" according the preamble of the ESM Treaty, a similar IMF programme is expected "wherever possible", thereby entailing the possibility of an autonomous EU loan (Viterbo & Costamagna 2012, p.15). Intriguingly, the IMF's role in the final ESM Treaty has been scaled back from an earlier version signed in July 2011 by dropping the phrase "in all circumstances" with regard to active IMF participation. Similarly, the qualifying "wherever possible" was added (Leipold 2013, p.7). Clearly, the ESM tries to strike a balance between relying on the Fund's expertise and additional funding on the one hand, and preserving the autonomy of EMU decision-making on the other.

[17]. For an overview of the European RFAs, see Salines et al. 2012 and Eichengreen 2012b, as well as: European Commission, "Financial assistance in EU Member States", accessed 25 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm>.

	BoP Assistance	EFSM	EFSF	ESM
Established	2002	2010	2010 until 2013	2012
Type	EU lending facility, financed by market borrowing	EU lending facility, financed by market borrowing	Private company, financed by market borrowing	Intergovernmental institution, financed with member resources plus market borrowing
Resources	50 bn EUR	60 bn EUR	440 bn EUR	500 bn EUR (capacity) 700 bn EUR (subscribed capital)
Recipients	EU MS ouside euro area	All EU MS	Euro area members	Euro area members
Governance	Commission proposes, Ecofin decides with QM	Commission proposes, Ecofin decides with QM	Eurogroup decides by consensus	Eurogroup decides by consensus
IMF involvement	No formal link, cooperation in practice, MS obliged to consult Commission first	IMF participation explicitly required, MS obliged to consult Commission first	Joint IMF-EU assistance envisaged	Similar request to IMF wherever possible, IMF monitors where possible

Table 1: European Regional Financing Arrangements. Source: IMF 2013

The latest and arguably most important development for the stabilization of the euro zone has been the announcement of ECB President Draghi in August 2012 to buy bonds on a large scale, if necessary, to "safeguard an appropriate monetary policy transmission and the singleness of the monetary policy".[18] This programme, called Outright Monetary Transactions (OMT), marked a turning point in the euro crisis as periphery bond yields plunged and talk of a euro collapse died down. The OMT announcement also raised the question of a possible IMF involvement, as it would be hard to imagine the independent ECB monitoring conditionality in euro member states. However, the possible role of the IMF in OMT remains unclear. At first, Draghi called IMF participation "welcome for the design of the policy conditionality", but no "condition sine qua non".[19] For the IMF's former chief economist Johnson, these comments meant that "essentially, the IMF is out".[20] Still, MD Lagarde declared the Fund "ready to get involved in designing and monitoring its

[18] ECB, "Press Release: Technical features of Outright Monetary Transactions", 6 September 2012, <http://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html>.

[19] Mario Draghi, "Introductory statement to the press conference (with Q&A)", 6 September 2012, <http://www.ecb.europa.eu/press/pressconf/2012/html/is120906.en.html>.

[20] Financial Times, "Draghi comments mark changing role of IMF", 6 September 2012.

implementation".[21] One year later, with no OMT activation so far, ECB Board colleague Cœuré tends to mention ESM and IMF programmes in tandem.[22]

Summary

The rapid progress of monetary integration in Europe has had only a limited influence on the EU's formal relations with the IMF. To date, the EU is only officially represented in the IMF through its member states who have a combined voting share of 32.0 per cent as of March 2011.[23] This share is likely to decrease as emerging economies demand a greater say over IMF decision-making. At the same time, the insistent calls for the creation of single EMU seat have been rejected by the European Council so far, they will not abate. Until then, EMU will continue to participate in the IMF mainly through the ECB's observer status. While coordination of European positions has improved through regular meetings in EURIMF and SCIMF, the Commission still regards coordination on IMF matters as "insufficient".[24] Assessing the frequency and impact of informal coordination on IMF issues is difficult due to the "remarkably low number of written reports and official written sources" about these mechanisms (Wouters & Van Kerckhoven 2013, p.226).

In the wake of the recent crisis lending, the interaction between the EU and the IMF has undoubtedly intensified. Close cooperation in the Troika of rescue lenders and the renewed appreciation for the Fund's expertise evidenced in the design of the RFAs indicate an elevated status of the Fund vis-à-vis the EU. However, it is doubtful if the recent developments are heralding a greater institutionalization of EU-IMF relations. In spite of the intensive cooperation of the recent years, European authorities have shown a great reluctance towards a formalization of the IMF's involvement in Europe (see Table 2). The Fund itself acknowledges that "there is currently limited formal guidance on modalities for coordination" (IMF 2013b, p.21). Rather than strengthening institutional ties with the Fund, there is "a wish to build the institutional infrastructure within the euro area that will someday obviate resort to the Fund" (Henning 2011, p.6). According to ESM chief Regling, "Europe can probably do it on its own. The macroeconomic work that the IMF is doing…will be in good hands with the

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[21] Reuters, "IMF backs Draghi; says Spain, Italy have done enough", 9 September 2012.

[22] Benoît Cœuré, "Outright Monetary Transactions, one year on", 2 September 2013, <http://www.ecb.europa.eu/press/key/date/2013/html/sp130902.en.html>.

[23] Croatia is not yet included. Once the 2010 quota reform is ratified, Europe's voting share will fall to 29.4 per cent. IMF, "Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010", accessed 21 November 2013, <http://www.imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf >.

[24] European Commission, "Relations with the IMF", accessed 20 November 2013, <http://ec.europa.eu/economy_finance/international/forums/imf/index_en.htm>.

Commission in the long run".[25] Former European IMF director Borges assures that the feeling is mutual: "The divorce between Europe and the IMF is real…The Fund is going back to its normal way of business. It is an institution used to being alone in calling the shots".[26]

	Period				
Mode of institutional interaction	**1945-1989**	**1990-1998**	**1999-2006**	**2007-2013**	**Future**
Formal	Europe strongly represented on Executive Board; European MD; only states as full members	Creation of EURIMF	Observer status for ECB on Executive Board	No change	Single euro area seat? Reduction of European Directors? MD no longer European?
Informal	n.a.	Dialogue between IMF and Ecofin/EMI	ECB speech at IMFC; Creation of SCIMF; euro area Director speaks for EMU matters; IMF invited to Eurogroup meetings	Ad-hoc cooperation over BoP assistance and Troika; Strong influence on European RFAs; Possible role in ESM and OMT	Restricted to programme design and monitoring?

Table 2: Institutional EU-IMF Interaction

3.2 Functional interaction

The division into institutional and functional interaction is motivated by the fact that legal obligations as well as formalized processes of coordination represent insufficient indicators of observed behaviour. Put differently, it is hard to assess the output of EU-IMF interaction by looking only at the institutional ties which, as the previous section has shown, have in fact remained remarkably stable. In addition, there are instances of interaction, understood as mutual influence, which are not captured by formal categories. One way to evaluate functional interaction with the EU is measuring the extent to which its core activities have affected Europe. This requires a short overview of the Fund's key functions.

In order to achieve the purposes set out in Article I of the Articles of Agreement – safeguarding the stability of the international monetary system, promoting international

[25] Wall Street Journal, "Bailout Fund Boss Says Current Greek Debt Analysis 'Meaningless'", 26 September 2013.

[26] El Pais, "Divorce on the horizon for troika as Brussels and the IMF fight over mistakes", 23 June 2013.

monetary cooperation and facilitating international trade – the Fund has three powers: regulatory, financial and advisory (Lastra 2010, p.4; Hagan 2010, p.956). In the case of Europe, the formal powers are not equally relevant. The regulatory obligations of Article VIII, which require currency convertibility and information provision, are not problematic for European members. Of greater importance is the Fund's other regulatory activity: monitoring economic and financial developments and advising member countries (*surveillance*); as well as providing resources to member countries experiencing balance of payments problems (*lending*); and offering *technical assistance*, as well as training for government and central bank officials.[27] Out of these three functions, the IMF's role in providing conditional financing is certainly the most prominent and politically charged. However, lending accounts only for about 25 per cent of the IMF's workload (IEO 2008, p.6). While this has increased in recent years, surveillance still makes up the bulk the Fund's interaction with Europe.[28] Technical assistance, on the other hand, is primarily aimed at developing countries with weak governance structures.

Functional interaction: surveillance

Surveillance – the task of overseeing the international monetary system and monitoring the economic and financial policies of all member countries pursuant to Article IV of the Articles of Agreement – today constitutes the IMF's main activity. It is defined by the IMF as "a process of dialogue and persuasion centred on issues of external stability, covering exchange rate policies and relevant domestic policies" (IMF 2007, p.3). Traditionally, surveillance comprises two separate exercises: mandatory *bilateral* surveillance of individual member countries, which was based on formal Board decisions, involved yearly consultations with national authorities[29] and resulted in the publication of so-called Article IV reports and Financial Sector Assessment Programme reports (FSAPs); and voluntary *multilateral*

[27] European Commission, "Relations with the IMF", accessed 20 November 2013, <http://ec.europa.eu/economy_finance/international/forums/imf/index_en.htm>. A concise overview of the IMF's functions is provided by the "IMF Handbook" (Fritz-Krockow & Ramlogan 2007).

[28] As demonstrated by the IMF's "Europe and the IMF News Archive", which contains almost exclusively transcripts and statements pertaining to its surveillance activities, accessed 23 November 2013, <http://www.imf.org/external/region/eur/Index.aspx>.

[29] In IMF-speak, 'authorities' refers to senior officials from the finance ministry and the national central bank, as well as other actors involved in economic and monetary policy-making.

surveillance, which was primarily executed through the regular assessment of global economic developments.[30]

Over the years, the scope of bilateral surveillance expanded significantly beyond exchange rate stability – most notably with the introduction of “external stability” in 2007. The Article IV process came to include areas such as the financial sector and capital flows (IEO 2008, p.5). Nevertheless, bilateral surveillance faced strong criticism for focusing exclusively on domestic policies and neglecting the consequences of destabilizing international spillovers. As IMF initiatives such as multilateral consultations added limited value, the IMF adopted an “Integrated Surveillance Decision” in 2012 which combined bilateral and multilateral surveillance for the first time and replaced the vague concept of ‘external stability’ with ‘balance-of-payments stability’ (Viterbo & Costamagna 2012, p.5).

Before EMU (1945 to 1989)

Bilateral surveillance existed “in embryonic form ever since the organization was established”, but it became a legal obligation in 1977 (Pauly 1997, p.79). Even though the amended Article IV required the Fund to exercise “firm surveillance” over the exchange rate policies of its members, the practical relevance of this provision for Europe remained limited. Drafted as a political compromise for a transition to a system of floating exchange rates, the obligations of Article IV remained “aspirational, rather than legally enforceable” (Proctor 2006, p.1338). One expert of IMF law called it a “compound of obscure expressions” (Gold 1988, p.112). Since members were allowed free choice of exchange rate regime, it remained unclear what would violate a member’s treaty obligations.[31] In most cases, officials “would meet the IMF mission chief and listen politely to the Fund’s policy advice”. However, “heeding that advice was no better than a rare occurrence, and examples of the authorities of a major country acknowledging doing so were even rarer” (Boughton 2012, p.166).

At the same time, the leading industrial nations decided to set up their own forum for monitoring monetary and economic policies in 1982. In spite of an initial understanding that the G5/7 would cooperate with the IMF, it became clear that the Fund was relegated “to play

[30] The Fund’s multilateral surveillance publications vary in spatial focus, frequency and subject matter. At the moment, they consist of the three ‘flagship’ publications World Economic Outlook (WEO), Global Financial Stability Report (GFSR), Fiscal Monitor as well as the Regional Economic Outlook, Spillover Reports, a Pilot External Sector Report and a Global Policy Agenda. Further information on all IMF publications can be found on the IMF website, <http://www.imf.org/external/pubs/pubs/per.htm>, accessed 21 November 2013.

[31] IMF surveillance of a European country gained prominence in 1982 when Sweden unilaterally devaluated the krona by 16 per cent, leading to an outcry by other Nordic members. No sanction or decision by the IMF followed, although “it was generally understood within the Fund and the international financial community that Sweden had acted contrary to Article IV:1(iii)” (Lowenfeld 2008).

a supporting informational part" (Lombardi & Woods 2007, p.8). Although the G5/G7 countries began in 1987 to invite the MD to their surveillance discussions, he attended only in his personal capacity. Moreover, the G7 countries – and the European countries involved in the European Exchange Rate Mechanism (ERM) in particular – "generally excluded the MD from detailed discussions of exchange rate policies" (Mussa 2008, pp.1–2). Thereby, "a pact of mutual non-aggression" emerged on the Board which prevented any substantive consideration of exchange rate policies (Mussa 2008, pp.1–2). It is safe to say that throughout this period, the influence of IMF surveillance on Europe before EMU remained minimal.

Stage One and Two of EMU (1990 to 1998)

Two episodes shaped the Fund's surveillance of EMU between 1990 and 1998: The ERM crisis in 1992-1993, which saw a number of European currencies come under heavy speculative pressure until Britain and Italy were forced to leave the ERM; and the decision to go ahead with a monetary union after the ratification of the Maastricht Treaty in 1993. Once again, the relevance of IMF surveillance turned out to be limited.

This was not due to a lack of attention for potential implications of EMU on part of the IMF. In 1992, the staff of the Fund's European directorate prepared a study which concluded that EMU would have "profound effects on Europe, its trading partners, and the Fund" (Boughton 2012, p.121). The staff suggested regional surveillance consultations with the new monetary authorities (primarily the EMI). However, the Board's discussion of the EMU paper was postponed in August 1992 – allegedly due to the upcoming referendum on the Maastricht Treaty in France in September. In the run-up to the crisis, the IMF had only issued "some informal warnings about the strain on exchange rates following the shock of German unification in 1990" (James 1995, p.786). As the ERM crisis erupted following the referenda in Denmark and France, the Fund's participation "was never an option" (Boughton 2012, p.174). The Fund experienced, according to its chief economist at the time, "significant deficiencies" in its surveillance of Europe as it issued "no specific warning of the ERM crisis" (Mussa 1997, p.31). Two factors contributed to the IMF's limited role: "the long-standing reluctance of European officials to seek the Fund's advice" and "the lack of a clearly articulated institutional position on EMU" (Boughton 2012, p.121). Due to the low opinion in which European policymakers held Fund during the ERM crisis, IMF officials "did not attend any of the critical meetings" and "were not invited to do so or to offer written advice"

(IEO 2007, p.33).[32] The IMF's evaluation office finds that IMF analysis at the time, both through surveillance and ad-hoc contacts, was "partial and missing the financial market dimension".[33] The Fund did pass "confidential high-level messages" to the German authorities in 1993 about policy changes, but they were "not well received" (IEO 2007, p.33).

As the ERM crisis passed, the IMF's position on EMU remained unclear. When the Board did finally discuss EMU's implications in December 1992, it agreed vaguely that the Fund should "hold regular discussions of EMU during the transition" and "broadly supported the process" (Boughton 2012, p.121). There was, however, no agreement on a possible formalization of EMU surveillance. In the early EMU years, Broome finds, Germany and the UK were particularly opposed to formal Article IV-type consultations with EMU, whereas Italy, Belgium and the Netherlands showed support (Broome 2013, p.597). Nevertheless, the IMF staff began in 1994 to hold regular informal discussions with EU institutions (IMF 2005, p.2) – an "annual process of proto-consultation" with "minor differences to Article IV consultations to defuse the political sensitivities" (Broome 2013, p.597).

When the Executive Board discussed EMU again in March 1996, concerns were raised as some Directors pleaded for delaying the timetable. However, the prevailing view was that "no matter how difficult the process turned out to be, its successful conclusion was critically important for Europe and for the rest of the world" (Boughton 2012, p.122). In March 1997, the Fund hosted a conference on the benefits and costs of EMU (published as Masson et al. 1997). Again, the mood for EMU was supportive. Some observers praised the comparative advantage of IMF surveillance, because EU monitoring was still "ill-equipped" to monitor budgetary policies that remained a national responsibility (Thygesen in: Masson et al. 1997, p.529). From then on, "analysis of all aspects of EMU was an integral part of Fund surveillance" as IMF staff "was meeting regularly with counterparts in the EMI" (Boughton 2012, p.123). Yet, discussions with European authorities still had to take place in "informal seminars" rather than formal meetings due to the resistance of European member countries against formalized EMU surveillance (Broome 2013, pp.598–600).

[32] Even if the IMF had been asked, it is not clear what measures it would have recommended as the crisis did not fit the IMF "first-generation" crisis model based on expansionary macroeconomic policies (Joyce 2012, p.93).

[33] The failure of IMF surveillance during the ERM crisis and later the Mexican crisis led to intense soul-searching in the Fund. Recognizing the importance of the financial sector in supporting macroeconomic stability, FSAPs were introduced to promote sound financial systems in member countries. In 2010, FSAPs were made mandatory for the top 25 financial sectors. The first-ever EU wide FSAP was concluded in March 2013, <http://www.imf.org/external/np/exr/facts/fsap.htm>, accessed 23 November 2013.

Stage Three of EMU (1999 to 2006)

With the third stage of EMU on 1 January 1999, the responsibility for setting monetary and exchange rate policies – the primary focus of IMF surveillance – shifted from the euro members to the ECB. Therefore, a formalization of regional surveillance of the euro area could no longer be postponed. In principle, the Board decided in 1998, bilateral consultations would continue, as the IMF's members remained individually responsible for their obligations under Articles of Agreement (IMF 2005, p.2). However, the Board also decided that bilateral discussions on fiscal, financial and structural policies were to be supplemented with separate discussions on monetary with EMU institutions (primarily the ECB and the Commission). For the first time, the Fund "adopted a specific policy establishing regional surveillance as an ongoing function" as it began to conduct discussions with the entire euro area in 1999 (Boughton 2012, p.123).[34] The goal of integrating regional with bilateral surveillance was, however, only partially achieved (Pisani-Ferry et al. 2011, p.11).

In retrospect, it is difficult to say if the renewed regional focus on EMU changed the impact of IMF surveillance. Anecdotal evidence suggests the contrary. A former Executive Director highlights the "self-restraint" of Board Members during discussions of Article IV consultations on EU member states and a growing tendency "to paraphrase official European positions" (Kiekens 2003, p.8). One senior staff member said that hard-hitting surveillance of the largest shareholders "does not exist…you cannot speak truth to authorities…you're owned by these governments" (Wagner 2010, pp.30–31). For instance, the IMF repeatedly refused to raise the issue of euro adoption with the UK because "the UK authorities had not been keen for the IMF to give its view" (IEO 2007, p.26). In addition to political sensibilities, the separation between bi- und multilateral surveillance also proved unhelpful. Article IV documents "rarely discussed national problems that could have significant implications for the euro area in aggregate", thereby losing sight of "overall consistency and spillovers within the euro-area" (Pisani-Ferry et al. 2011, p.11). Similarly, a review by the IMF's evaluation office found the IMF's multilateral surveillance in this period to be "as a whole less than the sum of its parts" (IEO 2006, p.1). However, the report also states that the IMF had influenced public debate in Europe, and that its analysis on the need for structural reform "had been frequently quoted, including by the President of the ECB" (IEO 2006, p.38).[35]

[34] Moreover, the relevance of Article IV consultations was augmented in 1999 by the decision to make them public for the first time, subject to member approval and stripped of market-sensitive information.

[35] One example of a policymaker's strategic use of IMF surveillance is the former UK Chancellor Gordon Brown's call on the IMF "to provide an independent assessment of ideas for controlling government

Financial and sovereign-debt crisis (2007 to 2013)

The outbreak of the financial crisis in 2007-2008 caught many by surprise. Did the Fund see the perilous developments coming? According to Bruegel, the Fund, by focusing on domestic stability, "ignored spillover effects of country-level developments onto other euro-area members" (Pisani-Ferry et al. 2011, p.12). Furthermore, the IMF displayed "too much confidence in the inherent stability of the private economy and the financial system", as it failed to "oppose the general mind-set that a better distribution of risk had reduced volatility in the financial system" (Pisani-Ferry et al. 2011, p.14; also Joyce 2012, p.177). As late as the summer of 2007, the IMF "pointed to a positive near-term outlook and favourable financial market conditions", which "underpinned the view of a resilient global economy" (Wagner 2010, p.5). The Fund even saw the global slowdown in 2008 as "good news", as it reduced the worry of a US-driven crisis due to global saving imbalances (Conway 2013, p.156).

In fairness to the Fund, it did not fare much worse in its forecasting performance than other institutions: "its projections of the impact of the crisis in the US and Europe are in retrospect very similar to those of government agencies" (Conway 2013, p.156). However, the views of the IMF staff "often seemed to closely parallel those of the US Federal Reserve" and of European authorities (Wagner 2010, p.8). In most cases, "large advanced countries were given the benefit of the doubt that their policymakers, supervisors, and regulators would be able to steer their economies through any rough patches" (Wagner 2010, pp.22–23).

The example of Greece, where skyrocketing debt and deficit levels triggered a wave of uncertainty in late 2009, is illustrative. Although the Fund noted "data weaknesses" in its 1999 Article IV report, it never unearthed "the true extent of these weaknesses" (Wagner 2010, p.26). Even when Greece's accounting practices were revealed, the Board never discussed its causes and implications (Wagner 2010, p.26). A combination of "self-restraint and resource constraints" were to blame for the IMF's failure to detect the irregularities in Greece: surveillance teams "probably lacked the authority and the resources necessary to carry out the further investigations" (Pisani-Ferry et al. 2013). In addition, the IMF repeatedly downplayed Greece's fiscal problems (Conway 2013, p.158). Overall, the Fund "fell victim to the mind-set that 'Europe is different'", possibly toning down its doubts "because of the weight of European countries in Fund governance" (Pisani-Ferry et al. 2011, p.16).[36]

borrowing", in the hope of "painting the Conservative party's tax and spending strategy in an unfavourable light". Financial Times, "Brown to seek IMF boost for policies", 24 April 2004.

[36] According to Bruegel, several interview partners felt that the euro-area Article IVs were "too close to the official line of the Commission and the ECB". The Fund's effectiveness was further reduced by its close

Once the Fund became involved in the solution of the crisis in the euro zone, EU-IMF interaction increased significantly also in terms of surveillance. Even though the division between the bilateral and euro area-wide remained a problem, surveillance "became much more intense", as the IMF "provided advice to national and euro-area authorities in real time and at an accelerated pace as the crisis unfolded" (Pisani-Ferry et al. 2011, p.2). When the rigid surveillance framework clashed with the urgency of the euro crisis, the Fund used "informal channels" outside the Article IV process to convey its messages to authorities in 2008-2010 (Pisani-Ferry et al. 2011, p.6). Newly appointed MD Lagarde "wasted little time in playing this mediating role", making "regular appearances" at meetings and summits in Europe (Hodson 2012, p.190).

The increased IMF involvement of the euro area did not, however, change the legal framework of surveillance (Viterbo & Costamagna 2012, p.6). Instead, "surveillance increasingly took an oral form or was carried out through unpublished documents", which makes an assessment of IMF surveillance in this period difficult (Pisani-Ferry et al. 2011, p.22). One visible example of enhanced Fund surveillance was Italy's request in October 2011 for quarterly fiscal monitoring beyond regular surveillance to reassure investors (Seitz & Jost 2012, p.18). This exercise, normally reserved for emerging market economies, ended a few months later at the request of the new technocratic government led by PM Monti.[37]

Functional interaction: lending

Under the system of fixed exchange rates, IMF members were expected to draw from the Fund's resources in order to maintain their currency parities (Lowenfeld 2008, p.622). After the collapse of the par value system, IMF lending evolved to address a wide range of balance of payments problems.[38] Today, IMF loans have three goals: avoiding default and disruptive adjustments; catalysing external financing; and preventing crises. IMF disbursements are usually released in instalments and tied to programme conditions in the context of an adjustment programme to ensure that underlying economic problems are addressed.

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relationships to the authorities, "drawing the Fund into the European policy game too much". Also, "collaboration between staff and Directors was not always smooth", as "staff often felt that Directors were pushing them back on several issues" (Pisani-Ferry et al. 2011, pp.19–21).

[37] Reuters, "Italy seeking to end IMF monitoring exception –source", 3 February 2012.

[38] At the moment, the Fund provides the following lending facilities: Stand-By Arrangements (SBA, non-concessional 'workhorse' lending instrument, tied to quota, for short-term BoP problems); Flexible Credit Lines (FCL, precautionary, no ex post conditions, uncapped); Precautionary and Liquidity Lines (PLL, for sound countries with liquidity problems; and Extended Fund Facilities (EFF, for long-term structural problems). Additional concessional facilities are available for low-income IMF member countries. IMF, "Lending by the IMF", <http://www.imf.org/external/about/lending.htm>, accessed 23 November 2013.

Before EMU (1945 to 1989)

European states have faced financing difficulties long before the recent crisis in the euro area. Discussions about regional assistance mechanisms date as far back as ideas about monetary unification. Ever since the 1960s, a regional support mechanism was discussed (James 2012, p.13). However, a European equivalent to the IMF never materialized: "the history of European political integration at every turn is marked by failed projects or actual mechanisms of financial solidarity" (Rhee et al. 2013, p.9). Designing an instrument for conditional financial support proved difficult in Europe due the "cooperative and interstate character of the integration process and the demand for unanimity" (James 2012, p.13).[39] Nevertheless, European demand for IMF financing reduced steadily from the 1970s on. This had three reasons. *First*, IMF loans, such as the ones for the UK and Italy in the mid-1970s, were a "politically painful experience". To avoid the stigma associated with IMF assistance, European countries increasingly "turned to Brussels for help rather than to Washington" (Truman 2012). *Second*, the European Economic Community developed its own facilities to finance foreign exchange intervention in support of the European Monetary System, such as in 1971 the Medium-Term Financial Assistance Facility (MTFA), which France accessed in 1983 and Greece in 1985 (Broome 2013, p.594).[40] The MTFA extended eight loans between 1974 and 1993, which in most cases exceeded the borrower's IMF quota (Henning 2002, p.57). *Third*, official financing was gradually replaced by easy access to liquid capital markets as the main source of adjustment financing. As a result, no European country borrowed from the IMF in the three decades after 1977 (Nelson et al. 2010, p.6).

Stage One and Two of EMU (1990 to 1998)

In the early years of EMU, countries such as Greece in 1991 and Italy in 1993 could still rely on a European balance of payments support (Broome 2013, p.594). The MTFA, "a relic of the ERM days", was now called the Balance of Payments Assistance Facility which offered a total funding of 12 bn EUR (Rhee et al. 2013, p.38). During the ERM crisis, there was no requirement for IMF lending, as its resolution involved either departure from the ERM (such as in the case of the UK) or a widening of ERM currency margins. Moreover, the ERM crisis affected a small number of European countries which "negotiated directly without the need of

[39] In a familiar twist, the emergence of a European monetary fund as part of the European Monetary System (EMS) was prevented in 1978 by "intense hostility from Germany", which "feared that this would be the beginning of large transfers to weaker and poorer states" (James 2012, p.13).

[40] The MTFA offered credits for up to two years. The facility was amended and expanded on several occasions through the 1970s and 1980s. It needed a decision of the European Council to be activated and involved policy conditionality (Rhee et al. 2013, p.38).

an intergovernmental organization" (Joyce 2012, p.92). Meanwhile, the IMF was "generally content that EU countries were not borrowing from the IMF" so it could "concentrate its limited resources elsewhere" (Truman 2012).

The access to European balance of payments funding ended, however, with the ratification of the Maastricht Treaty, which stated in Article 104 that "Overdraft facilities or any other type of credit facility…in favour of Community institutions or bodies…shall be prohibited". With the inclusion of the "no bail out clause", the monetary union was "precisely designed to reduce the need for financial safety nets within the euro area" (Rhee et al. 2013, p.9). Removing access to balance of payments support in 1993 – and the agreement on the Stability and Growth Pact in 1997 – were meant to prevent moral hazard and enforce fiscal discipline upon EMU members. However, the Maastricht Treaty remained "as uncommunicative as the Oracle of Delphi" about who would, ultimately, be responsible for the management of a monetary emergence (Cohen 2008, p.41). The ECB had no specific powers to deal with disruptions, such as "a wave of sudden illiquidity of its banking sector" (Cohen 2008, p.41). Hence, some observers argued, the Maastricht Treaty "increased the likelihood that EMU states would be forced to turn in future to the IMF for financial assistance, especially in the event of a systemic financial crisis" (Broome 2013, p.594).

Stage Three of EMU (1999 to 2006)

Despite EMU's "considerable ambiguity with regard to crisis resolution mechanisms" (IMF Capital Markets Report 1997, 25), the risk of sovereign default was never really considered in the years after the introduction of the euro. A convergence of sovereign-bond yields allowed all euro members to finance themselves cheaply through the markets. Indeed, it was a wide-held view that a balance of payments crisis could not arise for individual parts of a common currency, but only for the euro area as a whole. As a result, the possibility of a euro member having to access IMF support seemed only a distant possibility. The German Bundesbank noted that "euro area countries are quite unlikely to have a balance of payments need". Therefore, "the procedures in the event a euro area country wants to make use of IMF credit have so far been discussed only in passing (Bundesbank 1999, p.23). In 2004, the Financial Times called Europe "a group of countries that will never use IMF credit".[41] Reflecting EMU's rejection of balance of payments support for euro members, the MTFA was translated into the EU Balance of Payments Assistance Facility for non-euro members in 2002.

[41] Financial Times, „How not to pick the IMF's chief: Europe's outdated monopoly undermines Fund Legitimacy", 15 March 2004.

The IMF, for its part, faced increasing hostility after its botched handling of the currency crisis in South East Asia 1998. In 2004, just three countries – Argentina, Brazil and Turkey – were using more than 70 per cent of the Fund's general resources.[42] The number of new loans by the IMF fell from 26 in 2001 to twelve in 2007, with all but two going to its poorest members (Joyce 2012, p.1). As the Fund was forced to lay off staff members, commentators worldwide wrote the Fund's swan song. In the years before the crisis, "the IMF had come to be seen as a pariah by the developing world and as largely irrelevant by the developed world".[43] The Economist wrote that "poor countries fear the Fund and choose to suppress its conclusions; middling countries quarrel with it; rich countries ignore it".[44]

Financial crisis (2007 to 2009)

When the financial crisis reached European shores in 2008, the growing detachment between the EU and the IMF reversed sharply. More than ten European countries requested IMF assistance over the course of the crisis, including four members of the euro area. As Table 3 shows, the crisis was decisive for resuscitating IMF lending. As of September 2013, the IMF has arrangements with seven countries in Europe. These programmes, totalling about 103 bn EUR, represent 60 per cent of the IMF's total current commitments.[45] The path to this strong presence in Europe was, however, marked by political sensitivities and disputes.

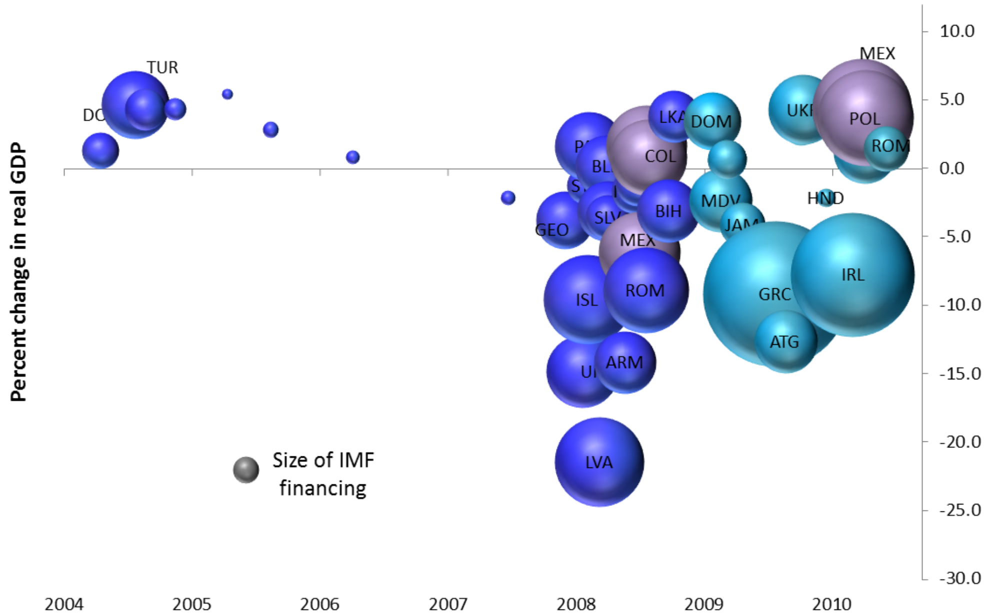


Table 3: IMF Lending and cumulative GDP drop, 2004 – 2010. Source: IMF 2011

[42] Financial Times, "Europe should give up its hold on the Fund", 17 March 2004.

[43] Financial Times, "Only the IMF can break Euro logjam", 16 May 2012.

[44] The Economist, „China and the IMF: Plato's Republic of China", 29 July 2010.

[45] IMF Factsheet, "The IMF and Europe", <http://www.imf.org/external/np/exr/facts/europe.htm>

The rapprochement between the EU and the IMF began in November 2008 as Iceland (not an EU member) embarked on an IMF-supported economic reform programme with some assistance from the EU (Truman 2012). As the collapse of Lehman Brothers brought EU members in Eastern Europe to the brink of economic collapse, the EU could not rely on any template for setting up emergency lending. The realization that EU members could require international financial assistance came as a "shock" to EU authorities (Rhee et al. 2013, p.9). At first, the EU was reluctant to formulate an overall policy response beyond IMF assistance, "for fear of taking some form of responsibility for what was perceived as national policy issues" (Sapir 2011, p.95). While the European Commission acknowledged some responsibility for the fate of EU members outside the euro zone, the ECB "ignored them" (Aslund 2010, p.78).[46] The IMF, for its part, saw the crisis as an opportunity to increase its global relevance by concluding a large number of standby programmes in Eastern Europe.[47]

Until 2008, the architecture of EMU had relied firmly on crisis prevention, with "no procedures, not even agreed principles for crisis management and resolution" (Pisani-Ferry et al. 2011, p.31). Consequently, "no operating procedures had been developed for such interaction between the EU and the IMF prior to the events in Hungary" (Viterbo & Costamagna 2012, p.2). In the end, the European Commission revived its Balance of Payments Assistance Facility for non-euro members, and decided to provide joint lending with the IMF. When Hungary applied for assistance in October 2008, it was required by Article 143 TFEU to consult with the EU before approaching the Fund (IMF 2011, p.4). Following trilateral negotiations with the IMF and the Commission, Hungary was offered 20 bn EUR of financial assistance, consisting of 6.5 bn EUR from the EU, 12.5 bn EUR from the IMF and 1 bn EUR from the World Bank.[48] In May 2009, an agreement was reached with

[46] Aslund quotes a minister from Eastern Europe comparing ECB president Trichet to Voldemort: "He was so feared that nobody dared to pronounce his name" (Aslund 2010, p.79).

[47] Hungary in October 2008, Ukraine in November, Latvia in December, Belarus and Serbia in January 2009, Armenia in March, Romania in May, Bosnia and Herzegovina in July, and Moldova in January 2010 (Aslund 2010, p.76). A new lending facility, the Flexible Credit Line, was created in March 2009 to provide unrestricted access to credit without ex ante conditions (Conway 2013, p.164). When Poland sought an FCL arrangement in April 2009 without giving the EU prior notice, the Commission was "not happy" (Volz 2012, p.10).

[48] European Commission, "Balance-of-payments assistance to Hungary", accessed 24 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/hungary/index_en.htm>. Hungary requested a second precautionary programme in November 2011. After delays over the independence of Hungary's central bank, no agreement was reached as Hungary managed to finance itself through the markets.

Romania to provide 20 bn EUR with a similar programme.[49] Progress on meeting the programme conditions was to be monitored jointly by the IMF and Commission officials.

What does the cooperation over the loans to Hungary and Romania tell us about EU-IMF relations? Some see the EU as a "junior partner" because it "lacked experience in providing balance of payments assistance" (Pisani-Ferry et al. 2013, p.83). For both countries, the IMF provided more than 60 percent of the financing. While the IMF took the lead in programme negotiation, the European Commission simply "shadowed the IMF" (Aslund 2010, p.78). In a more benign view, the EU acted "decisively and in a way that was revealing of its influence in the international arena" (Hodson 2011, p.103). The loan to Hungary can be regarded as an "unexpected display of financial force by the EU", with the European Commission as "a big winner on the EU side" thanks to its influence on designing and monitoring the programme (Hodson 2011, p.104)

The dynamics of the EU-IMF relationship changed over the programme for Latvia. The agreement reached in December 2008 after made financial assistance with an overall amount of 7.5 bn EUR available to Latvia, which included 3.1 bn EUR from the EU, 1.7 bn EUR from the IMF, 1.9 bn EUR from Nordic countries as well as 0.4 bn EUR from World Bank and EBRD.[50] Unlike Hungary and Romania, Latvia participated in the EU's exchange rate mechanism ERM II as part of its candidacy for euro membership. When the IMF originally proposed a currency devaluation for Latvia – one of the Fund's standard prescriptions –, it faced strong resistance by the EU which saw devaluation as setback for Latvia's path into the euro zone (Lamberte & Morgan 2012, p.13).[51] In the end, the IMF and the Commission struck an agreement whereby devaluation was off the table, and the EU contributed a larger share of the final package (Henning 2011, p.26). For the first time, the IMF "acted as a junior partner in a lending programme" (Pisani-Ferry et al. 2013, p.83).

Sovereign-debt crisis (2010 to 2013)

The interaction between EU and IMF intensified further during the sovereign-debt crisis in the euro zone. In light of the successful cooperation over Hungary, Latvia and Romania, it

[49] European Commission, "Balance-of-payments assistance to Romania", accessed 24 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/romania/index_en.htm>. Unlike Hungary, Romania required additional EU-IMF programmes which were agreed in February 2011 and July 2013.

[50] European Commission, "Balance-of-payments assistance to Latvia", accessed 24 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/latvia/index_en.htm>.

[51] The Economist reports that senior Commission officials were "shocked by the off-the-shelf feeling of the advice that the Fund offered to Latvia" which did not seem "very sensitive to European circumstances". The Economist, "Why is Germany talking about a European Monetary Fund", 9 March 2010.

may have appeared natural to apply the same approach to Greece when the country faced economic turmoil in late 2009. However, a repeat of the previous programmes was not feasible for three reasons: *First*, EU balance of payments assistance under Article 143 of the TFEU explicitly excluded euro members; *Second*, there was no choice for the Fund but to accept minority lender status due to the large sums involved; *Third*, a strong case was made for the ECB's involvement as a euro member was affected (Pisani-Ferry et al. 2013, p.82). After months of tense negotiations, the first economic adjustment programme for Greece was agreed in May 2012 which combined conditional bilateral loans from EU member states, pooled by the European Commission for a total amount of 80 bn EUR, as well as a 30 bn EUR IMF loan.[52] The progress of meeting agreed milestones for conditional disbursements was to be monitored by the Troika of IMF, Commission and ECB.[53] A second programme for an additional 130 bn EUR was approved in March 2012, financed by the EFSF. Due to the importance of the case of Greece, it makes sense to look at the motivations of the main actors – European Commission, European Council, IMF and ECB – in more detail.

The initial reaction of EU officials was to solve the crisis "within the family" (Henning 2011, p.5). IMF participation was "vehemently opposed" by the ECB and Eurogroup President Juncker among others (Buiter & Rahbari 2010, p.13). What tipped the scale in favour of IMF participation was the issue of conditionality. In early 2010, the European Council reached the conclusion, arguably at the insistence of Germany, that tough conditions were essential to prevent moral hazard from a bail-out (Dinan 2011, p.108).[54] However, it was feared that the Commission's chequered history of enforcing conditionality would tarnish the credibility of any programme.[55] Moreover, the imposition of conditionality proved politically difficult, particularly "in a putatively union of equals" (Eichengreen 2012b, p.10). Thus, it the EU turned to the IMF to borrow its experience in designing conditional

[52] Some economists claim that the conditional adjustment programmes are only part of the story, as "an additional trillion in quasi loans was given automatically without any policy conditions to small and large countries in the euro area" through the ECB's Target-II system (Mayer 2012, p.131).

[53] Europa Commission, "Financial assistance to Greece", accessed on 24 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm>.

[54] With regard to involving the IMF against the opposition of her EU partners in the early days of the euro rescue, Chancellor Merkel is quoted as saying: "I am on my own here, but I don't care. I am right". Der Spiegel, "Kleines Karo, großer Wurf", 21 October 2013.

[55] It took the EU until 2012 to formalize "strict conditionality" by adding a paragraph to Article 136 of the TFEU as well through its inclusion in the ESM Treaty.

assistance programmes. One European official described the arrival of the IMF mission in Athens in April 2010 as "almost like the US Marine Corps arriving in a war zone".[56]

From the IMF's point of view, the programme for Greece constituted both a threat and an opportunity. The upside was to increase its global relevance and join the EU at the forefront of fighting the euro crisis. The problems, on the other hand, were threefold. *First*, the Fund had to abandon a number of its loan requirements. For the first time, the IMF was forced to lend to a country without formal autonomy for monetary policy, thereby excluding interest rates rises and devaluations (Rogers 2012, p.191). It also failed to enforce upfront debt restructuring due to the reluctance of European lenders to book losses on their holdings of Greek debt.[57] *Second*, the sheer scale of the sums risked overstretching its resources. In order to allow lending to Greece, the Fund had to amend its strict debt sustainability criterion in May 2010 (Pisani-Ferry et al. 2013, p.85). Thereby, the Fund granted Greece a loan which amounted to 3,200% of its quota – the largest quota access ever – despite a previous limit of 600% (Nelson et al. 2010, p.6). *Third*, the loan to Greece stood on thin legal ground since Article V:3 of the Articles of Agreement requires a "balance of payments problem" for using Fund resources - which is questioned for members of a currency union. However, the IMF stood by its legal interpretation that lending to Greece was permissible in light of the IMF member's treaty rights (Smits 2009, p.11).

The ECB's involvement also raised a number of questions. Created with a mandate to pursue low inflation, it was "seen less as a bank with responsibility for lending to and otherwise supporting the operation of the financial system" (Eichengreen 2012a, p.130). In this spirit of independence, the ECB was "wary of participating in any kind of formal joint decision-making process with other actors" (Puetter 2012b, p.505). In particular, the ECB was said to have an "uncomfortable relationship with the Fund from the start of EMU" (Truman 2012). Accordingly, ECB president Jean-Claude Trichet in March 2010 called a possible IMF lending a "fantasy scenario".[58] Nevertheless, the ECB ultimately agreed to join the Troika to assist in monitoring the programme conditions.

What does the Greek programme say about the interaction between EU and IMF? In a benign reading for the Fund, it "got a maximum 100 per cent influence in the program design

[56] Wall Street Journal, "IMF and Europe Part Ways Over Bailouts; Euro Zone and IMF Could Be Heading for a Divorce", 11 October 2013.
[57] In fact, the EU was said to have pushed for more rigorous conditions than the IMF which had started to distance itself from fiscal orthodoxy (Lütz & Kranke 2013).

[58] Jean-Claude Trichet, "Introductory statement with Q&A", 4 March 2010, accessed 24 November 2013, <http://www.ecb.europa.eu/press/pressconf/2010/html/is100304.en.html>.

and surveillance procedure by contributing around 33 per cent to the rescue funds," (Seitz & Jost 2012, p.23). However, the majority of observers regard the Fund's involvement as a failure because the IMF has "taken a junior role in the European crisis" and "agreed to a flawed crisis strategy based on unrealistic assumptions" (Volz 2012, p.10). The original debt sustainability analysis has come under particular fire, with officials from the Commission, the IMF and the Greek finance ministry calling it, respectively, "a joke", a "fairy tale" and "scientifically ridiculous".[59] What prompted the IMF to agree to the Greek rescue programme is not clear to this day. Allegedly, "shareholder governments have put undue influence on IMF staff to sign off on unrealistic lending programmes".[60]

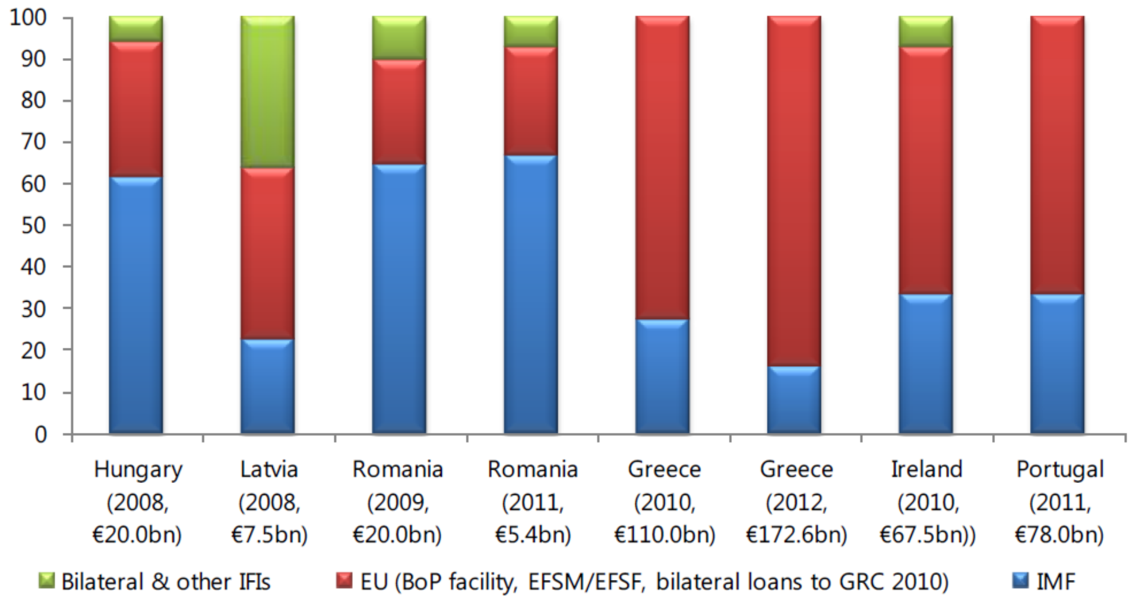
Although the following programmes for Ireland (December 2010), Portugal (May 2011) and Cyprus (May 2013) were similarly mired in political controversy, this paper has focused on Greece. However, a breakdown of all joint EU-IMF programmes allows a few observations (see Table 4). *First*, that the IMF provided a majority share to Hungary and Romania, but not to Latvia. *Second*, that programmes for non-euro members also involved bilateral loans and third institutions. *Third*, that the IMF's contribution fell visibly for euro members, which at the same time received a considerably higher total amount than the previous loans to Central and Eastern Europe. This development would have been even more striking with the inclusion in Table 4 of Cyprus which received only 1 bn EUR from the IMF in May 2013, while the ESM provided 9 bn EUR.[61] Thereby, Cyprus was granted 6 times its IMF quota, whereas Greece received 22 times and Ireland 16 times its quota.[62]

[59] Wall Street Journal, "IMF and Europe Part Ways Over Bailouts; Euro Zone and IMF Could Be Heading for a Divorce", 11 October 2013.

[60] Financial Times, "Draghi comments mark changing role of IMF", 6 September 2012.

[61] European Commission, "Economic Adjustment Programme for Cyprus", accessed 25 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/cyprus/index_en.htm>.

[62] EuropeanVoice, "The third man's man", 10 October 2013.



Sources: Program documents, WEO, and IMF staff calculations
1/ Excludes Poland under FCL arrangements, where the Fund has provided access on its own.

Table 4: Burden Sharing in IMF Co-Financing with the EU (percent) (IMF 2013b, p.20)

Functional interaction: technical assistance

Technical assistance is the Fund activity with the lowest political salience. Based on Article V of the Articles of Agreement, its objective is to contribute to the development of member countries by "enhancing the effectiveness of economic policy and financial management" (IEO 2005, p.7). It primarily involves capacity building (human and institutional) as well as policy formulation and implementation. Importantly, technical assistance is not an obligation of either the IMF or the member, and it does not require management or Executive Board sign-off (IEO 2008, p.7). Technical assistance is often used to enhance the Fund's regulatory and financial powers, and in about 70 percent of cases it is delivered to countries with per capita incomes below 1,000 USD (IEO 2005, p.34).

For Europe – defined broadly to include Eastern Europe and the former members of the Soviet Union – technical assistance by the IMF played an important role in the post-communist transition to market-based economies in the 1990s.[63] The amount of assistance delivered to Eastern Europe has, however, declined sharply after 1999 due to a more active role by other institutions in this region, particularly the EU (IEO 2005, p.34). Nevertheless, IMF technical assistance retains a visible presence in Europe in the form of the Joint Vienna Institute (JVI), a training centre for Central and Eastern Europe established in 1992 by the IMF and Austrian authorities. The JVI also served as a launching pad for the European Bank

[63] On the IMF's involvement in Poland, Russia, Ukraine and Bulgaria in the 1990s, see Stone 2002.

Coordination Initiative (EBCI), better known as 'Vienna Initiative', which at the height of the financial crisis in 2008/09 helped to stabilize the banking systems of Central, Eastern and Southeastern Europe (CESEE).[64] As an informal process, the EBCI provided "a forum for collective action to prevent a banking crisis" (Aslund 2010, p.71). According to the IMF, the Vienna Initiative was an attempt, "with some improvisation", to "find a way for a more formal process to keep banks engaged" after the IMF "had just finished negotiating two new programs with Romania and Serbia".[65] In the context of EU-IMF interaction, the Vienna Initiative is particularly interesting as a further example of ad-hoc cooperation beyond formal procedures. Despite its early success in helping stabilization and recovery, the ECBI was never formalized, as it "failed to agree on a general framework and common understanding on divisions of tasks and burden sharing" (Nitsche 2010, p.1).

Although technical assistance has historically played a marginal role for EMU, its inclusion in this paper is warranted by its sudden (re-)appearance during the euro crisis. In the middle of 2012, a large-scale bailout for Spain seemed unavoidable due to the fragility of its financial sector. But when Spain requested financial assistance, the IMF played no direct role in the negotiations between Spanish and EU authorities.[66] Unlike the programmes for Greece, Ireland and Portugal, the IMF did not contribute to the 100 bn EUR assistance which was provided exclusively via the EFSF and subsequently taken over by the ESM.[67] However, Spain also involved the IMF separately by requesting technical assistance from the IMF under Article V:2(b) of the Articles of Agreement.[68] Through quarterly progress reports, the Fund has been monitoring Spain's macro-financial context and its progress on financial sector reforms in order to restore the health of its financial sector and rebuild market confidence (IMF 2013a).

[64] The Vienna Initiative brought together several institutions, including the IMF, the World Bank, the European Bank for Reconstruction and Development, the European Commission and relevant EU institutions, the main cross-border banking groups, and home and host country authorities. It was re-launched in January 2012 as 'Vienna 2' "in response to a second wave of deleveraging and supervisory ring-fencing". IMF Factsheet, "The IMF and Europe", <http://www.imf.org/external/np/exr/facts/europe.htm>, accessed 23 November 2013.

[65] IMF Survey Magazine, "Agreement with Banks Limits Crisis in Emerging Europe", 28 October 2009, <http://www.imf.org/external/pubs/ft/survey/so/2009/INT102809A.htm>.

[66] Former Spanish PM Zapatero recalls how Chancellor Merkel, at a European Summit in November 2011, urged him to accept a IMF programme for 50 bn EUR – a demand he firmly rejected. Reuters, "Merkel intento forzar a Espana a pedir un rescate, dice Zapatero en su libro", 25 November 2013.

[67] European Commission, "Financial assistance for the recapitalisation of financial institutions in Spain", accessed 23 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm>.

[68] Wall Street Journal, "IMF Reiterates No Plans to Fund Financing for Spain, Only Monitoring", 14 June 2012.

In addition, the Fund has also offered its expertise on bankruptcy and insolvency law reform as well as structural reforms as part of its involvement in the stabilization of the Euro periphery (IMF 2013c, 16). The future importance of the IMF's technical assistance in Europe is unclear as the EU attempts to reduce the need for Fund involvement. For instance, the Commission set up a "Task Force for Greece" in July 2011 to provide voluntary support to the Greek authorities for implementing necessary reforms and better absorb EU funds.[69]

Summary

After a long hiatus, the interaction between EU and IMF intensified visibly over the course of the stabilization of the euro area also in its functional dimension. Two developments have been particularly striking. First, that functional interaction developed beyond formal channels of contact. In providing short-term surveillance as well as negotiating loans alongside country authorities' alongside the EU institutions, the Fund side-stepped its traditional procedures. If necessary, rules were amended and limits increased to accommodate its ongoing involvement in Europe. The EU, for its part, showed remarkable flexibility in bringing in the IMF selectively when its own capabilities were found lacking by the escalation of the crisis. This was all the more surprising in light of the palpable neglect in which the Fund's activities were long held by European policymakers. The second observation is closely related: in a sort of push-and-pull approach, the European institutions have, at every stage of interaction, been torn between seeking comfort in the IMF's independence and expertise, and a pronounced reluctance towards ceding authority – in particular when stakes were high and large euro zone members were affected. Reflecting the lack of formalization of EU-IMF relations observed in the previous section, the EU has actively been engaged in replicating the IMF's key functions – surveillance, lending and technical assistance – in order to avoid the humiliation, as many saw it, of turning to the Fund to solve internal problems.

[69] Europa Commission, "Financial assistance to Greece", accessed on 24 November 2013, <http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm>.

	Period				
Mode of functional interaction	**1945-1989**	**1990-1998**	**1999-2006**	**2007-2009**	**2010-2013**
Surveillance	Minimal relevance for Europe, monetary cooperation outside IMF after 1977	Deficient in ERM crisis; supportive but unclear position on EMU surveillance	Parallel surveillance of euro area and MS; self-restraint and weak multilateral surveillance	Caught unprepared by financial crisis; „Europe is different“ mindset	Integration of surveillance; strong but informal role in euro area; enhanced monitoring of Italy; greater focus on financial sector
Lending	No loans after 1977	No loans	No loans	Cooperation over Iceland, then assertive presence in Europe. Major role in Hungary and Romania; junior partner in Latvia	Loans to four euro area members; alternating influence on programme design and reduction of financing share
Technical assistance	n.a.	Important in post-communist transition	No role	Vienna Initiative 1	Vienna Initiative 2; monitoring of Spanish banking sector reform

Table 5: Functional EU-IMF Interaction

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