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The Role of Ideas at the International Monetary Fund in the European Debt Crisis.

To what extent has there been a shift away from the Washington Consensus in IMF's fiscal policy recommendations for the Southern European economies?

Abstract

The document focuses on a key issue at a European level: The Role of the International Monetary Fund and the ideas behind its policy recommendations in the design of the bailout packages for the Southern European economies during the European Debt Crisis. The document attempts to shed some light on the debate around the IMF and its links to the Washington Consensus by conducting a quantitative study. Results show that, despite recent claims about a shift towards a more flexible framework, to a large extent, the IMF still follows the principles first laid out by John Williamson.

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1. Introduction

In October 29th, 1929, the Dow Jones lost 30 points, an equivalent of 12% of its capitalization. The ‘Black Tuesday’ symbolically marked the beginning of the biggest economic crisis of the twentieth century. America’s deep structural problems would shake the pillars of the global economy and would question previous economic dogmas. The decade that followed would become of extreme importance for the field of economic thinking. The Great Depression put an end to the classical school of economics and facilitated the rise of a novel approach, promoted by arguably the most influential economist of his century, John Maynard Keynes. Keynesianism¹ dominated the economic policy-making debate in the decades following the Great Depression. Moreover, its views contributed to the foundation, in the 1944 Bretton Woods conference, of the two major International Financial Institutions (IFIs), the World Bank and the International Monetary Fund (IMF or The Fund onwards).

With time, IFIs have become crucial international actors in the field of global economics. Hand in hand with globalisation, the World Bank and the IMF benefited from the numerous challenges of the second half of the twentieth century and became true references in policy-making. Among these events, the 1970s and 1980s stand out as the decades when the pillars of the IFI’s were re-founded. Several global dynamics, including the rise of floating exchange rates systems, emerging financial globalisation and the rise of alternatives to Keynesian policy-making pushed the IFIs to adopt a new perspective on global issues (Boughton 2004). Since the late 1980s, the IMF, together with the World Bank, began to follow the principles of, what in literature is known as, the Washington Consensus. This term refers to the set of policy measures laid out by John Williamson, an American economist, in 1989 as a response to the Latin American economic crisis. They are commonly identified with a pro-market agenda, advocating, among other measures, for fiscal consolidation, trade openness and the elimination excessive regulatory barriers.

Naturally, substantial changes in IFI’s organisations are inevitably related to the big challenges that each institution faced. Within this context, just like the Great Depression paved the ground for Keynesianism and the 1970s and 1980s crises did for the

¹ The IMF defines Keynesianism as the school of thought where “government intervention can stabilize the economy”.

Washington Consensus, the 2008 Global Financial Crisis (GFC)² opened the window for an alternative approach which could challenge the status-quo. In an economy that is more interconnected than ever before, IFI's play a crucial role in addressing diverse global economic issues (Bhargava 2006) and could become the catalyst for a change in the standing approach to macroeconomic policy.

Since 2012, scholarship³ has argued that, to some extent, there has been a shift in IMF's ideological position on fiscal policy. They argue that in some countries, the Fund has departed from the Washington Consensus framework and has picked up a more flexible stand, characterised for prioritising growth over fiscal sustainability. One might argue that such a shift in policy preferences might have helped to gather popular support around these institutions. On the contrary, the joint intervention by the EU and the IMF has spurred a movement of popular discontent with their fiscal policies and its implications for the national democratic systems (Streek and Schafer 2013). Considering these contradictory dynamics, the questions I intend to answer with this work is:

To what extent there has there been a shift away from the Washington Consensus in IMF's fiscal policy recommendations for the Southern European economies?

The European Debt Crisis (EDC) presents a great opportunity to evaluate such change since the Fund has embarked on ambitious programs aimed at rebuilding the pillars of these economies. That will allow studying the substance of IMF's policy recommendations, helping to establish whether the set of policies proposed by Williamson are still the main driver of IMF's policy preferences. As one of the world's largest economic block, the EU influences economic policy at a global level and could, in fact, become the catalyst of a new way of dealing with macroeconomic challenges. Thus, it is essential to understand how the IMF has operated in the world's second-biggest economic area and what are the ideas behind these policy recommendations which will undoubtedly shape the approach to future economic crises.

The document is structured in four blocks. First, I present the academic debate around the topic and how it has evolved since the 1980s. Second, I describe how and why the IMF got involved in the EDC. Here, I also introduce the concept of conditionality. Third, I

² I refer as Global Financial Crisis (GFC) to the financial turbulence provoked by Lehman's bankruptcy (2008-09). What follows is referred as European Debt Crisis (ECD). It has other names such as European Sovereign Crisis.

³ This will be extensively discussed in the literature review.

carry out the analysis, by first describing the method used to evaluate IMF's policies, and then studying the documents in detail. Finally, I summarise the findings and provide a concise overview of what the future could look like for the IMF in European terms. In addition, an annexe is attached containing the numeric results of the study.

2. *The State of the Art*

There is a vast amount of literature written on the IMF. Since its foundation in 1944, numerous academics, with both economic and non-economic backgrounds, have tried to understand the dynamics driving this international institution. These studies have focused on a wide set of areas; macroeconomics, financial sector and governance. Additionally, since the 1990s, an intense debate has taken place in the ideological *arena*. This debate has addressed the economic ideas behind IMF's approach to international economics.

The second half of the twentieth century was the golden age of economic theory. A considerable number of events regularly challenged previous economic thinking, clearing the path for other theories to take over. Boughton (2004) listed ten events that have influenced the IMF throughout its short history. Additionally, he gives an overview of the ten ideas that have shaped IMF's ideological background in such times. From Keynesian macroeconomics to the Washington Consensus, stepping on other theories such as monetarism or neoclassical economics, the Fund's ideological basis has been influenced by the most prominent economists of all times and schools. Although these studies are helpful to understand the Fund's history, for the matter of this work, I will exclusively analyse the literature from the 1990s, when the Washington Consensus was born.⁴

The Washington Consensus

The term Washington Consensus was coined after Williamson proposed a series of economic policy recommendations for the Latin American economies in the late 1980s. These recommendations were compressed into ten policy points (Williamson 1990) that moulded a package of structural reforms encouraged by the IFIs and supported by the US government. The plan advocated for economic liberalisation and the reinforcement of the role of market forces in the configuration of a new global economy. In a time when Keynesian economics, the theory that had dictated economic policy since the Great War, was heavily questioned, the Washington Consensus benefited from its simplicity and succeeded in securing the pillars of the new global economic governance (Stiglitz 2005). Its pro-market agenda matched the upswing of monetarism in the 1980s and the rise of conservative governments led by Margaret Thatcher and Ronald Reagan. As a result, the

⁴ Developing the previous theoretical debate would take too long for this essay. There are books written on each of these topics.

Washington Consensus soon became synonymous with a *neoliberal* agenda.⁵ Since then, the term has been subjected to constant modifications. Williamson himself has, in a number of papers, explained how it has adopted a definition that differs from what he proposed in the nineties (Williamson 1999, 2008). In a revision of his work, he argued that such simplification of the term is an “objectionable perversion of the original meaning” (Williamson 2005). Despite considerable efforts from the author, the public, and to some extent, scholars, still label the IMF as a neoliberal institution.

The 2000s debate

Almost three decades after Williamson’s work, there is still debate on how much the Washington Consensus influences the IMF. Yet, this debate is not new. Notably during the 2000s, after the Asian financial crises, a wave of revisionism trying to debate the effectiveness of such guidelines emerged. Some of its critics, led by prominent academics, have argued that the program was incomplete (Rodrik 2006; Stiglitz 2005) and that it was often the cause, and not the solution, of major financial crises (Stiglitz 2003)⁶ and failed foreign aid programs (Rodrik 2001). Moreover, other authors have tried to identify in what areas it has failed to deliver the expected results (Birdsall, Caicedo and De La Torre 2010; Ocampo 2005). On the contrary, there were economists who, despite expressing the necessity to revise its content, defended the measures undertaken by the IMF. Kenneth Rogoff, a former IMF economist, argued that the IMF became the ‘scapegoat’ for many government and economists to avoid addressing structural imbalances. By dismantling the four major myths about the Fund, he highlighted the key role of the IMF in promoting global financial stability (Rogoff 2003).

Despite these efforts, the Consensus’ reputation had been heavily damaged by the financial crises in the 90s and ended up partly giving in to the revisionist’s views. In other words, the Washington Consensus was not a consensus anymore. Some views in the other major international institutions such as the World Bank and the United Nations (UN), expressed their concerns about the effects of the standing framework and the necessity to move towards a post-Washington scheme (Stiglitz 1998; Gore 2000). Excluding some

⁵ Note that the term *Neoliberal* has often been misused and requires further explanation. Mirowski (2009) provides a historical analysis of the term and where it stands today.

⁶ This book is an extensive criticism to the international monetary system overall. The author lists the criticism to the IMF from all schools of thought.

heterodox scholarship, such as the Austrian School, or strong defenders of monetarism, it is fair to say that there was no real support for the set of policies laid out in the initial Washington Consensus framework anymore (Rodrik 2006). Even Williamson (Kuczynski and Williamson 2003) introduced an updated reform agenda of his previous work, embedded in the economic struggle of Latin America. In fact, some authors began to argue that the paradigm shift had already begun.

Overall, two trends arose during the 2000s. First, the effectiveness of the Washington Consensus framework was heavily questioned and second, although most economists agreed that the IMF was still heavily influenced by its revised version, the shift towards another paradigm had already started.

GFC Impact

The GFC was a major inflexion point in the debate. Governments tackled the disastrous aftermath of Lehman Brother's bankruptcy with a Keynesian approach. Major stimulus packages in many OECD countries confirmed the counter-cyclical fiscal policy⁷ that characterised developed economies in previous crises (Marcel 2013). While in many developed economies like the US, Canada, the UK or Australia, this approach was effective, in the Eurozone, it unveiled major budgetary problems.⁸ It was then when policy makers adopted a new pro-cyclical fiscal policy approach which reminded to the old Washington Consensus (Alesina, Barbiero, et al. 2015). Scholarship has extensively questioned this approach's success in solving macroeconomic issues, which can be perceived in some of the works produced between 2010 and 2013 against austerity in different countries during economic recessions (DeLong and Summers 2012; Holland and Portes 2012). Further criticism from famous authors such as Paul Krugman (Krugman 2011, 2012) unveiled an increasing interest in fiscal policy management and the role of fiscal multipliers.

Fiscal multipliers have become a crucial policy concept. They are defined as “the ratio of a change in output to an exogenous change in the fiscal deficit with respect to their

⁷ I use Alesina's definition of countercyclical fiscal policy: “[A] policy that follows the tax smoothing principle of holding constant tax rates and discretionary government spending as a fraction of GDP over the cycle” (Alesina and Tabellini 2005). Likewise, Alesina's defines procyclical fiscal policy as “a policy in which tax rates go down in booms and up in recessions and spending over GDP goes up in booms”. The authors note that this is the most used definition in the literature.

⁸ See Table 1. Past and expected fiscal behaviour of OECD countries 2007-2013 by country groupings (% of GDP) (a), (Marcel 2013).

respective baselines” (Batini, et al. 2014), and they set the ground for the appropriate fiscal policy for each crisis. When a multiplier is above one, a pro-cyclical fiscal policy can be devastating for an economy as the GDP will plunge more than one percentage point (and vice-versa). Fiscal multipliers were not on top of IMF’s agenda before the GFC. In fact, it seemed that there was a consensus within the Fund regarding their magnitude. Orthodox economists acknowledged that they had not changed from previous years, and it, therefore, made sense to foster measures aimed at fiscal consolidation. Estimations by the Fund in the World Economic Outlook Reports (WEO) of 2008 (IMF 2008a) and 2010 (IMF 2010a) showed that these multipliers had not varied dramatically from pre-recession levels. In fact, there was little literature trying to challenge this assumption. Nonetheless, the debate reversed some months later. By 2012, the IMF expressed its concerns on the underlying magnitude of fiscal multipliers in the Eurozone (IMF 2012a). But it was in 2013 when the mainstream stance was questioned (Blanchard and Leigh 2013). Olivier Blanchard was, at the time, the IMF Chief Economist. The fact that the leading economist at the IMF had publicly accepted that their recommendations had probably been based on incorrect economic assumptions was an important inflexion point for scholars. The changing role of fiscal multipliers meant that a new window opened for academia.

The Post-Recession Debate

Contrary to what happened before the GFC, the debate is no longer just on the effectiveness of the Washington Consensus. As stated above, the new perception on the magnitude of fiscal multipliers has shifted the debate to another area. Pro-cyclical fiscal policy lost support and ‘pushed’ policy-makers to move towards a more flexible fiscal policy scheme. The new debate questions whether the IMF has undergone a paradigm shift, and in that case, in what areas this departure has been most visible.

The concept of a ‘paradigm shift’ has been a widely covered topic in literature. It has been subject to continuous criticism and revision since Thomas Kuhn’s *The Structure of Scientific Revolutions* (Kuhn 1962). One of the most influential works in the economic domain has been Peter Hall’s *Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain* (Hall 1993). By studying the British economy, the author evaluates the paradigm shift, from Keynesianism to monetarism, that policy-making experienced in the 1970s and 80s. Since then, Hall’s definition of a ‘paradigm

shift' has become a crucial concept for the analysis of policy changes. In fact, "[i]f scholars want to define a policy paradigm, or find a point of departure to present their own argument, they usually start with '*Policy Paradigms, Social Learning, and the State*'" (Cairney and Weible 2015).

Within this framework, scholarship has approached this issue very differently. First, the analysis differs from one set of countries to another. Secondly, the studies have tried to assess this potential shift in each of the policy areas where the IMF currently operates. It is necessary to state that, according to Hall, a shift in a policy paradigm is a transitional process, which means that one cannot argue that the IMF is following either the Washington Consensus or a newer framework, but it is rather at a certain stage of a transition. While it would be more appropriate to create a 'scale' where the classification would depict a more accurate picture of the state of the debate, for the simplicity of this review, the works cited below are classified into two categories. First, those who believe that there has not been a major shift in IMF's set of premises, these are the *stability* (status-quo) supporters, and secondly, those who believe there is enough evidence of an advanced transition, the *change* supporters.

In the first group, Gabor argues that the IMF prioritised fiscal restraint and opposed interest rates reductions which would affect exchange rates and debt accumulation. She argues that instead of "cracking the neoliberal armour", evidence suggests that there is no sign of an emerging post-neoliberal IMF (Gabor 2010). Mueller emphasises the hegemony of the US in shaping the ideas behind IMF's policy and how the "little outside the box thinking" prevents a departure from its *neoliberal* agenda (Mueller 2011). In the same line as Mueller, Güven (2012), by studying developing economies such as Mexico, Thailand and Turkey, writes that, despite considerable efforts in changing its operations, rhetoric and priorities, there is little evidence to suggest a paradigm shift in both IMF and World Bank's lending programs. Furthermore, he highlights that the influence of developing countries in IMF's decision-making remains limited. Babb (2013) provides a historical analysis of the concept and goes even further arguing that not only conditionality, the key instrument of the Washington Consensus, still stands as the IMF's fiscal policy catalyst, but the likelihood that an alternative framework will arise in the short term is very small.

On the other hand, Grabel argues that, despite not having reached another "Bretton Woods" momentum, there is enough "uncertainty and aperture in economic ideas" in the

developing world that can foster a change in economic ideas behind the IFI's policy paradigm (Grabel 2011). Clegg (2012) believes that a series of operational reforms in developing economies after the Great Recession support the shift in IMF's discourse. Others argue that the IMF is no longer the "guardian of economic orthodoxy", a role which has been picked up by the EU in what they call a "European Rescue of the Washington Consensus" (Lütz and Kranke 2010). In another article, Lütz, basing her analysis on Hall's paradigm framework, explains that the IMF is in the process of a paradigm shift in its lending policy, but it "has not yet materialised" (Lütz 2015). Finally, Broome (2010) uses the credit crunch during the GFC to explain the more flexible position of the IMF.

The works cited above cover the latest analysis of IMF's fiscal policy recommendations. Nonetheless, as previously stated, other authors have studied other policy areas. Probably the most accurate synopsis of the literature about the IMF its paradigm shift is provided by Governance (2015). A series of seven papers which focuses each on a different policy area and depicts a clear picture of the latest IMF's actions. A clear but concise summary can be found in the first paper (Ban and Gallagher 2015). First, they provide an overview of the debates that have taken place in the last few years by summarising the literature on financial sector policy, international organisations policy dynamics in general and more specifically, the agency of IMF's staff as the guardians of the status-quo or the catalyst for change. Secondly, the paper argues that there is evidence of a stronger shift towards flexibility in financial issues while the same conclusion is not so clear regarding fiscal policy. The latter is further discussed by Ban (2015) who attempts to clarify IMF's official stand in the debate between austerity and stimulus by studying the ideological change within the Fund. He argues that, while credibility in financial markets remains the main concern of the IMF, the institution is now more open to fiscal stimulus and a more flexible consolidation of public accounts. Broome (2015) concludes that there are two patterns in IMF's policy recommendations compared to the 1980s and 1990s. First, the IMF still considers fiscal consolidation as one of its main goals. Second, there has been a shift away from structural reform demands. In other words, there has not been a paradigm shift, but the policy recommendations areas have narrowed in the last 20 years. Additionally, Erce (2015) highlights the mismatch between IMF's latest concern on domestic demand in times of crises and the discrimination of domestic creditors in debt repayments after conditionality application. The other papers put a bigger emphasis on financial issues.

Gallagher (2015) studies the role of the IMF in capital liberalisation and capital flows management and its relationship with the increasing importance of BRICS at the international institution. Gabor (2015), puts the emphasis on how IMF's new perspective in global banking interconnectedness has not been implemented properly and has become a strategy rather to "build global credibility". Finally, Seabrooke and Nilsson (2015) give another insight into the Fund's staff dynamics by studying the Financial Sector Assessment Program (FSAP). These works provide useful insights to understanding IMF's operations and therefore some of them, especially on the operations debate, are analysed. Nevertheless, in most cases, they differ from the main goal of this paper and will not be included in the study.

While it may seem that scholarship has tackled this issue and the question has been answered, most of these studies have focused on developing economies. Although the Governance Issue includes more cases than the individual works mentioned above, there is very little emphasis on the role of the IMF in European terms. Schwarzer (2015), who, introducing the concept of 'learning', explains how and why the EU modelled its crisis approach around IMF's structure and previous practices, provides a deeper insight. In the same direction, Seitz and Jost (2012) give a timeline of IMF's involvement, motivations and pros and cons behind this intervention. Moreover, Bohn and De Jong (2011) try to explain how the EDC was highly influenced by the differences between the two major European players, Germany and France, and how they contributed to the increasing uncertainty about the future of the Economic and Monetary Union (EMU). Finally, some authors explain the difficulties encountered by the IMF in its policy implementation at a European scale and the growing relevance of the financial sector within IMF's policy mix. They argue that a transition from the "it's mostly fiscal" IMF to the "it's mostly financial and fiscal" is necessary (Véron 2016).

While these works provide a valuable insight into different policy areas, none provides a comprehensive analysis of IMF's fiscal policy potential shift in European terms. In the next section, I set the ground for such analysis by explaining why and how the IMF got immersed in such a complex process.

3. Setting the Ground – The IMF, Member States and Conditionality.

Worrying Signs

On October 18th, 2009, the recently-elected Greek Prime Minister, Yorgos Papandreou, announced that Greece's deficit forecast was to be revised upwards from 6.7% to 12.7%. The announcement wiped out any remaining investors' confidence in Greece's solvency. Within weeks, the Greek bond spread rose to unsustainable levels⁹ and marked the beginning of the EDC. Since then, the EU has entered the most uncertain economic juncture in its brief history. In the process, there have been numerous attempts to soften the impact of such crisis, improve the European economic governance framework and ensure the long-term sustainability of the common currency.

The causes of the Greek crisis are profound. Both domestic and international factors have contributed to the lead-up of such situation.¹⁰ The sudden shift of markets' expectations was bound to happen as the underlying pillars of the Greek economy had shown signs of chronic imbalances. Both the government and the private sector had developed a large dependence on external funding. Over the years, the slow growth of productivity and steady increase of prices relative to other Eurozone member states (EMS) had placed pressure upon Greece's competitiveness and its current account (Gibson, Hall and Tavlás 2011). Simultaneously, fiscal indiscipline had become the rule as primary deficits were used to fund wage and pension increases above productivity growth levels (Wyplosz and Sgherri 2016). As a result, Greece suffered from the 'twin deficit' phenomenon which quickly translated into the highest debt to GDP ratio in the Eurozone.¹¹ Thus, any difficulty in accessing funding would unveil a major crisis of arguably, the weakest economy of the Eurozone. Despite these factors, Greece managed to weather the GFC relatively well as access to global financial markets remained stable, allowing it to cover its short-term obligations (Nelson, Belkin and Mix 2010). In the immediate aftermath of Lehman's collapse, the fiscal stimulus put in place by most OECD members helped containing the stress in European financial markets. Notwithstanding, the prospects for the Greek economy darkened after the publication of the 'hidden' deficit figures and

⁹ The 10-year Bond spread more than quadrupled between the end of 2009 and mid-2010 (Gibson, Hall and Tavlás 2011)

¹⁰ There is a vast amount of literature written on this topic which will not be discussed here. For a brief overview from two different perspectives visit (Lane 2012).

¹¹ IMF WEO Database.

steered rating agencies into evaluating Greece's solvency. By early 2010, the Greek sovereign bond had been downgraded to 'junk bond'. As the unexpected events unfolded, investors' concerns began to spread to other member states with, potentially, similar issues.

The EU's lack of experience in dealing with such situations became evident after the first few weeks under speculative pressure. Initially, there was a lot of confusion regarding which policy choice was the better solution to the Greek problem. At the beginning of 2010, the situation was regarded as a Greece-only issue which could be handled by just coordinated European action (Schwarzer 2015). For several weeks, EU and national officials, including Germany, sought to mitigate markets' volatility by repeating that the Euro is by itself, a guarantee of the solvency of its members. In other words, according to European officials, the mechanisms enshrined in the Treaties would be enough to tackle a problem of such magnitude. Within this context, the concept *liquidity crisis* took shape (Schwarzer 2015). To calm markets down and prevent uncertainty to spread to other EMS, the EU's main obsession became to fund this short-term liquidity gap. Intervention was, nonetheless, far from being a politically painless process. Notably on the Northern member states, officials faced increasing popular discontent with the Euro and the EMU.¹² Any measure targeted at transferring funds to a budgetary 'irresponsible' EMS would entail a high political cost.

Nevertheless, the problem had reached such magnitude that the debate of a joint response could no longer be avoided. In early 2010, the Greek budgetary hole had derived into questions about the sustainability of other European members' accounts. Fears of a potential contagion spiced up as the spreads of the Irish and Portuguese sovereign bonds peaked. More worryingly, investors pointed to Spain and Italy as possibly the next to follow. In other words, the crisis had gone from a Greece-only problem to a systemic nature that threatened the pillars of the common currency. By March 2010 it was obvious to European officials that a major strategy was needed. Indeed, beyond simply negotiating a package of financial assistance, the conversations paved the road for a newer framework, needed to counteract markets' recent behaviour. As Schwarzer puts it; "[i]n

¹² In Germany, Netherlands, Austria and Finland, scepticism towards the common currency was at its highest in early 2010. Eurobarometer, *"Irrespective of other details of the Maastricht Treaty, what is your opinion on each of the following proposals? Please tell me for each proposal, whether you are for it or against it. There has to be a European monetary union with one single currency, the Euro"*. <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Chart/getChart/themeKy/17/groupKy/80>

order to contain a crisis driven by market expectations, a big ‘firewall’ needs to be constructed that market participants see as able to fend off a substantially bigger crisis” (Schwarzer 2015)

The talks intended to solve the first problem encountered many difficulties as the European legal scheme was not designed to deal with problems of such nature. Firstly, the European economic governance framework had shown strong signs of chronic weakness in the preceding years of the EDC. Unlike the IMF, who was heavily involved in the Asian and Latin American financial crises, the EU and the Commission had not faced a comparable situation before. Consequently, the need for a mechanism ensuring short-term liquidity access had rarely arisen. The framework established in Maastricht consisted in two ‘arms’; preventive and reactive. The ‘reactive’ arm of the GSP consists exclusively in the possibility to impose sanctions on a member state which does not comply with such requirements, but the possibility of financial assistance is legally ruled out by European law (Article 125 TFEU). On the contrary, the EU had put the emphasis on the ‘preventive’ side of the equation. The budgetary restrictions established in Maastricht were intended at ensuring that member states would never reach the point of needing external financial assistance. However, as data shows, the enforcement of such mechanism has been far from being effective (Feld, et al. 2015). With the possibility of a ‘bail-out’ package ruled out, many relied on the central bank to stabilise markets by purchasing sovereign bonds. This approach, where the central bank acts as the ‘lender of last resort’, however, is also not applicable at a European level. The ECB is prohibited from purchasing bonds on the primary market (Article 123 TFEU).

In addition to being legally restrained, both the Commission and ECB faced internal hurdles that stopped them from intervening efficiently. Macroeconomic models within the Commission and ECB had, since its foundation, been embedded in the SGP, thereby prioritising budgetary compliance over macroeconomic stability. (Schwarzer 2015). When the crisis adopted a systemic dimension, these models failed to evaluate policy options on a European scale effectively.

Within this context, by spring 2010, the systemic nature of the crisis, the legal constraints faced by European economic actors and the institutional lack of capacity had opened the gate for external help. European officials, not without exceptions, turned to the IMF as the most capable international actor.

Internal Differences

An IMF intervention of a developed economy in the EU would be a ground-breaking event. Apart from Iceland in 2008, the last time the IMF had granted financial assistance to a developed economy was in the 1970s, when the UK requested the largest IMF loan to that date (The National Archives). Although in a Eurozone context the IMF historical record was non-existent, the Fund had already gathered some experience in dealing with the EU institutions. In late 2008, Hungary applied for financial assistance after the GFC had hit its public accounts. The IMF, through the Stand-By Arrangement (SBA), and the EU, through the Balance-of-Payments (BoP) Assistance Facility, provided a €20 billion loan subject to a fiscal adjustment plan and reinforcement of capital requirements in the banking sector (IMF 2008b). Several months later, similar programs were agreed by the two institutions to assist Latvia (IMF 2008c) and Romania (IMF 2009). In a way, this served as a precedent in IMF-EU joint programs, thereby establishing the guidelines for future cooperation. Nevertheless, the Greek case was different in two levels. First, Greece was a Euro member. Secondly, the bail-out package, in this case, would have to be substantially larger.

For these reasons, the involvement of the IMF in Eurozone affairs became a highly controversial debate, especially between the French-German axis. As mentioned above, many officials openly opposed the idea, and some viewed the direct involvement of the IMF as a sign of weakness. German and French finance ministers both publicly opposed the involvement of the IMF (Kincaid 2016). On the French side, however, there are cultural patterns that explain the more sceptical position towards the IMF and its involvement in European affairs. President Sarkozy himself remained reluctant to this option because the IMF is a “US-dominated institution despite the fact that a Frenchman is the managing director” (Bohn and De Jong 2011). The French had always been sceptical of IMF’s Anglo-Saxon approach to crisis management. Furthermore, contrary to its German partners, the French have traditionally opposed being restrained by the automatic rules applied by the Fund. But the fiercest opposition arose within the ECB, who perceived IMF’s involvement as a sign of humiliation. The Trichet-led institution argued that a European-only solution, via implementation of bilateral loans programs and the enforcement of the GSP, would be enough to overcome short-term instability. This reasoning lies in ECB’s perception on conditionality application, which is now stricter than IMF’s (Lütz and Kranke 2010). Within the ECB, in a long-term perspective, the IMF

was regarded as nothing, but a threat to price stability and the stricter rules set out in the GSP, a view that was shared by some officials within the Commission (Schwarzer 2015). Thus, when in May 2010, the EU, together with the IMF, had committed to a first Greek bailout package, it was perceived as an “embarrassment for the ECB” (Atkins, Thornhill and Hall 2010).

If there was such a large opposition, why did the EU finally involve the IMF? As mentioned above, the systemic nature of the crisis acted as a wake-up call for several European actors, including German and French officials who now repeated that the Euro is a one-way project. French President demanded “a compromise from everyone to support Greece” (Tremlett, Wray and Fletcher 2010) and Angela Merkel, in an attempt to gather support around the bailout package, assured that if the Euro collapses “then Europe and the idea of European union will fail” (Spiegel Online 2010). Part of the European public opinion, which saw the rescue package as a violation of European rules and the establishment of a dangerous precedent, did not share this economic rationale (Kulich 2010). While Sarkozy easily bypassed this opposition, it was a bump in the German road. A possible explanation is the considerable differences in their national decision-making processes respectively. The German system “requires Merkel to take a much more guarded approach” and look for a consensus around major decisions, whereas in France “the presidential system allows Sarkozy to push ahead with his political agenda” (Bohn and De Jong 2011), thereby granting him more power over major initiatives. Within this context, IMF’s impressive repayment record¹³ was used as leverage by European officials, including Merkel, who saw in the IMF the perfect ‘scapegoat’ to raise support for intervention in the Greek crisis. By involving the IMF, whose experience in sovereign debt crises was much more reliable than the Commission’s, taxpayers’ concerns over the possibility of a default would be softened, facilitating the domestic ratification of such package.

Bailing another EMS out might solve the short-term implications of a financial meltdown, but it raises a well-known problem for economists, moral hazard. In effect, some European officials advocated for a Greek bankruptcy as it would eliminate this risk in the future. Thus, if the EU was to soften these claims, it had to ensure that the programs were based on strong conditionality mechanisms. To back IMF’s involvement, some pundits

¹³ Virtually nil, according to Rogoff (2002).

argued that the Commission, despite its presumed independence, was “too close” to European politicians (Schwarzer 2015), which would compromise the correct implementation and surveillance of conditionality. As I will explain in the next section, IMF’s programs are not released in full at the beginning but rather consist in periodical disbursements. Thus, the IMF can, not only, withhold a future payment but can also threaten to exercise its right to withdraw from the program, an action that would not be credible if the Commission or member states did.

Finally, beyond strategic objectives and political goals, a joint program also had other hidden positive externalities at an operational level. First, there was a mutual benefit from both institutions expertise. This framework would allow both institutions to benefit from an increased exchange of information. While the IMF would provide the technical knowledge and experience in financial crisis management, the EU would enable the program to be embedded in a broader policy context (Seitz and Jost 2012). Secondly, IMF’s resources are far ahead DG ECFIN’s regarding manpower, especially during a time when IMF’s lending activity was very limited (Schwarzer 2015)

But not only was the EU interested in getting the IMF on board. The Fund also ‘pushed’ to be part of the solution. Over the previous years, the IMF was regarded as an obsolete institution, especially after the rise of Asian powers’ current account surpluses which now funded a big share of global debt needs (Seitz and Jost 2012). The involvement in the EDC would put the IMF back in the headlines, and it would turn around the worsening reputation that it had picked after the Asian financial crises. Its governance structure also contributed to its involvement. As an IFI, its members ‘share’ the right to act. Nevertheless, the US and EU represent a big share of the voting powers.¹⁴ With the US on board because of several reasons, the fact that the Executive Board must give its consent to an agreement would also mean that minimum requirements regarding conditionality would have to be agreed.

Overall, from the European side, an IMF’s involvement would send a credible message to investors, which would ultimately soften the pressure placed upon Southern European bond spreads and allow the institutions to have more time to negotiate new mechanisms. Furthermore, complementarity and mutual learning at an operational level would translate

¹⁴ The EU holds approximately 30% of the votes in the Executive Board. If the US support the EU, this climbs to more than 46%. IMF Executive Directors and Voting Power; <https://www.imf.org/external/np/sec/memdir/eds.aspx>

into a more efficient and credible bailout program. On IMF's side, the possibility to restore its reputation and the strong presence of EU members at the highest managerial level were the major drivers of the Board's approval of the program.

The Aftermath of the Greek Crisis

As aforementioned, Greece's crisis unveiled the need for both the reinforcement of the GSP framework and the set-up of reacting mechanisms for future similar crises. At the first level, European institutions came with several proposals. The 'Six Pack' strengthened the surveillance and clarified the conditions of the macroeconomic imbalance procedure (MIP). Later in 2012, the European Fiscal Compact¹⁵ deepened the commitment of EMS by establishing the 'golden rule' of a lower limit of a structural deficit of 0.5%. On the other side, the European Financial Stability Facility (EFSF) and European Financial Stability Mechanism (EFSM) were set up in May 2010 as emergency mechanisms to guarantee short-term financial stability. The larger of them, the EFSF, was portrayed as a European scheme, where the Commission would provide its technical input, but in effect, it was the member states who would ultimately take the decisions in the European Council. Therefore, the political constraints previously experienced were not eliminated (Gocaj and Meunier 2013). As the crisis spread, the necessity of a permanent mechanism began to arise. In effect, the European Stability Mechanism (ESM) replaced the EFSF and EFSM in September 2012 in an attempt to contain the stress in the financial markets. The relevance of the IMF at a European level is visible on the bases of the newly-established mechanisms. Not only they are modelled upon IMF's best practices, but they formally refer to co-lending as the preferred option, thereby ensuring future cooperation between the two institutions (Schwarzer 2015). In a matter of months, the EU had shifted from an anti-IMF position to ensuring its contribution in the future of its crisis management mechanisms.

In this section, I have explained the complexities of an IMF's involvement in the initial stages of the EDC. Despite all efforts, the Greek crisis quickly adopted a European dimension. In November 2010, Ireland, following a €64 billion government bailout to rescue one of the most leveraged banking sectors in Europe, requested financial assistance for an amount of €85 billion. In May 2011, it was Portugal who communicates the

¹⁵ Officially named 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union'.

Commission that it is not able to roll over its short-term debt and needs from external help. Also in 2011, conversations are set for a second bailout package for Greece, which eventually is concluded in early 2012 and included a 53% write off the face value of privately-owned sovereign bonds (ESM). Despite a relatively stable start of 2012, in summer, uncertainty intensifies, and bond yields start to increase. By October 2012, it was the Spanish banking system which had to be granted an emergency funding line. Finally, in 2015, the Greek government asks for further funds to meet its short-term debt repayments. Amidst national political uncertainty, the details of this package have yet to be agreed. Table 1 summarises the bailout packages put in place by both the IMF and the EU.

Table 1 – Bail-Out packages in the Eurozone.

	European Union				IMF		TOTAL
	EFSM	EFSSF	ESM	Bilateral Loans	SBA	EFF	
Greece I	-	-	-	€80b ¹⁶	€30b	-	€110b
Greece II	-	€102b	-	-	-	€28b	€130b
Greece III	-	-	€85b ¹⁷	-	-	-	€85b
Ireland	€22.5b	€22.5b	-	€4.8b ¹⁸	-	€22.5b	€85b
Portugal	€26b ¹⁹	€26b	-	-	-	€26b	€78b
Spain	-	-	€100b ²⁰	-	-	-	€100b
Source: IMF and European Commission							

¹⁶ Reduced by €2.7b when Slovakia withdrew and Greece and Ireland were excluded because of national financial problems.

¹⁷ Negotiations are still ongoing. IMF's exact contribution is to be determined.

¹⁸ The Irish government contributed with €17.5b (€10b by the National Pension Reserve Fund & €7.5b in cash resources).

¹⁹ Concluded the program having used €24.3 in the end.

²⁰ Spain 'only' used €38.9 billion for the banking sector recapitalization and €2.5 billion for the capitalization of Sareb, the national asset management fund.

4. *Conditionality*

As mentioned in the previous section, IMF's disbursements are subject to 'conditionality'. Conditionality is defined by the IMF as "program-related conditions intended to ensure that Fund resources are provided to members to assist them in resolving their balance of payments problems in a manner that is consistent with the Fund's Articles and that establishes adequate safeguards for the temporary use of the Fund's resources" (IMF 2002). In other words, conditionality is IMF's tool to guarantee that receiving members successfully repay programs' funds. In practice, conditionality is part of a broader strategy which attempts to "restore or maintain the balance of payments viability and macroeconomic stability while setting the stage for sustained, high-quality growth and, in low-income countries, for reducing poverty" (IMF 2017a).

It is necessary to state that conditionality is not an IMF-exclusive tool. To some extent, similar practices exist in all private lending contracts where the principal does not have access to full information about the agent and its practices. In a market of such nature, asymmetric information leads to both adverse selection and moral hazard problems (Khan and Sharma 2006). While in private lending contracts, the principal demands *collateral* to avoid these issues, a sovereign state with financial difficulties can rarely offer any internationally accepted assets. Thus, the IMF must place certain measures as a condition for lending members to ensure that the funds made available are being repaid. In effect, conditionality acts as the *collateral* in IMF-Members contracts.

Understanding conditionality is a requirement to understand the ideas behind IMF's lending policy. Babb affirms that for the Washington Consensus, conditionality was the core mechanism to extend its principles worldwide effectively (Babb 2013). Over the years, IMF's guidelines on conditionality have encoded these lending principles. The document, which is regularly updated, contains other features that apply to IMF's lending policy.

First, conditions are adjustable to specific sovereign economic characteristics. At least on paper, the IMF takes into account the different circumstances of its members. Yet, this reasoning clashes with the one-size-fits-all approach that has characterised the Fund's conditionality for a long time (Babb 2013). In general, the IMF acknowledges both member's past performance and future economic prospects at the time of designing a program, which means that for certain projects, receiving members must qualify by

complying with pre-established requirements. Secondly, the IMF protects itself against a potential default by releasing the funds in several timeframes. In theory, these principles attempt to mitigate the risk of sovereign default by constituting two levels of conditionality; ex-ante and ex-post. While the first one seeks to prevent nations from delaying requesting IMF aid (worsening economic conditions could entail more painful pre-program measures), the second one impedes receiving parties to take gambles once the IMF unlocks the funds.

Only then, receiving states have the incentive to implement the reforms previously negotiated. When it comes to implementation, the IMF applies what they call ‘country ownership’, which means that, while reforms must deliver results in compliance with Fund’s requirements, it is the receiving state who is responsible for designing and implementing such measures. With this mechanism, the IMF seeks to tone down claims about national sovereignty violation. Moreover, the Fund only demands conditionality on the issues that have critical importance for macroeconomic stability. These variables and structural reforms are usually embedded in three fields: Monetary, fiscal and exchange rate policies.

Although conditionality is a relatively stable tool, it has been subject to considerable criticism, especially since the 1990s, when it was heavily blamed for its rigid approach to the Asian and Latin American crises. Previously, in the 80s, conditionality had helped install the Washington Consensus framework around the world. Also, the complexities of the rising number of states needing financial assistance enabled conditionality to expand beyond fiscal consolidation, its traditional domain, and embrace the task of providing unwelcomed recommendations such as industry privatisation (Babb 2013). Altogether, conditionality was the main contributing factor to why the IMF was, and is still, regarded as a neoliberal institution.

To prevent this perception from spreading, the IMF has constantly reshaped the rhetoric around its application. Since the release of the first guidelines notes in 2003, four additional modifications have followed. The 2005 and 2008 reforms preceded the 2009 revision, where new mechanisms were designed to improve IMF’s lending activity. The Flexible Credit Line (FCL), the Precautionary Liquidity Line (PLL) and urgent balance of payments needs mechanisms, Rapid Financing Instrument (PFI) and Rapid Credit Facility (RCF) were added to previous practices. In addition, the 2012 staff discussion highlighted the improvements in advancing towards a more flexible framework after

adopting the lessons from previous crises experiences. Finally, the 2014 revision (IMF 2014a) tries to incorporate new language aimed at improving the “macro-social” dimension of programs’ implementation. In this line, the IMF should “make every effort to accommodate their preferences and policy choices—including on growth, labour market and distributional targets” or “assist members in broadening support for sound policies” (IMF 2014a) among other guidelines.

On a general note, recent developments have, at least on paper, advanced towards a broader and more flexible approach, which is arguably visible at a European level, where certain actors complained about the severity and rigidity of conditionality application in the initial stage of the EDC. This stance was, nevertheless, not enforced by the IMF but rather by the Commission, the ECB and several member states who refused to accept an upfront debt restructuring that would have resulted in a reduced rescue package and laxer policy conditions (IEO 2016).

In the next chapter, I proceed with the analysis of fiscal policy recommendations. Inevitably this will involve an extensive study of conditionality. The goal is to test whether the novel approach applies to the European situation. To do this, first, I present the analytical framework and then I conduct the analysis.

5. Methodological Framework

The analysis of policy recommendations is not an easy task. There are two hurdles that one must overcome to conduct an accurate study. First, policy recommendations are rarely expressed in quantitative terms. It is true that the EU establishes annual goals on, for instance, public deficit numbers, but it seldom specifies how to accomplish these goals quantitatively. Thus, the analyst is subject to the risk of subjectively classifying such recommendations. It is obvious that, for example, the reference to a ‘fiscal contraction’ will be addressed differently by Keynesian and monetarist economists. Secondly, the withdrawal of valid conclusions is conditional to the size and consistency of the sample. In IMF terms, this becomes a challenging process as there are numerous technical complexities regarding IMF’s policy instruments and official documents. Likewise, the Fund is inevitably influenced by external actors and institutional norms that differ from one set of countries to another. Consequently, it would be a statistical error to include in the same sample members and non-members of the Eurozone. Thus, it is essential to design a framework that, if not eliminates, at least mitigates the risk of making such mistakes, which involves, first, a system that quantitatively codes policy recommendations of a qualitative nature, and second, the selection of countries and documents that can be compared in time.

A more concrete challenge is the wide scope of IMF’s policy recommendations. Trying to address all of them would lead to a very long and complex process. It is crucial then to focus in one specific area, which can later be isolated, disaggregated and deeply studied. The ten points introduced by Williamson (1990), which are the pillars of the Washington Consensus, can be split into three big policy areas: Fiscal policy, monetary and trade policy and legal and structural changes. In the next table, the main policy focuses on each policy areas are summarised.

Table 4.1

Policy Focus	Policy Nature
Fiscal Deficits	Fiscal Policy
Public Expenditure Priorities	
Tax Reform	
Interest Rates	Monetary and Commercial Policy
The Exchange Rates	
Trade Policy	
Foreign Direct Investment	

Privatization	Regulatory and Structural Changes
Deregulation	
Property Rights	
Source: (Williamson, What Washington Means by Policy Reform 1990)	

One might argue that monetary policy and structural changes are as important as fiscal policy and that the analysis of all three would provide a more accurate picture. Nevertheless, there are two realities that ‘push’ the analysis towards fiscal policy. First, when Eurozone Member States (EMS) committed to the EMU, monetary policy instantly became an EU-exclusive competence, thereby making impossible to establish a multi-country analysis. Moreover, unlike other developing economies, where the financial sector is considerably underdeveloped, and the IMF can exert more influence, EU’s monetary and financial governance framework is relatively solid, and it is more difficult for the IMF to intervene. Secondly, EU membership, notably within the Eurozone, is in itself a guarantee of stable regulatory frameworks where legal and structural matters concerning property rights and regulation are both highly developed and influenced by the EU (Poulsen, Bonniticha and Yackee 2015). In general, the EU regulatory framework is among the best-designed systems at a global scale, making further measures almost unnecessary. Fiscal policy, on the contrary, is the most powerful economic tool that EMS still retain. It is indeed, as mentioned in the previous chapters, the underlying cause of the Greek crisis and the EDC. Overall, studying IMF’s evolution based on fiscal policy allows the analysis to have a bigger sample, to establish comparisons and to understand the policy area where the IMF can exert more influence.

Fiscal policy has three functions; ensure macroeconomic stability, resources allocation and income distribution (Roy and Almeida Ramos 2012). While IMF’s policy recommendations address all of them, the fact that its members apply for financial aid in times of economic difficulties, make macroeconomic stability stand out. In the past, a series of monetarist assumptions reinforced the Washington Consensus’ narrative which claimed that budget deficits threaten macroeconomic stability (Gabor 2010). Thus, to stabilise the economic activity, policy recommendations must be aimed at achieving sustainable public accounts. To the three levels of fiscal policy previously proposed; primary deficit reductions and public sector and tax reforms, another policy action could be added; labour market reform, both for the private and the public sector. Despite standing between a fiscal measure (i.e. public-sector wage reductions) and a structural

reform (i.e. collective bargaining modifications), calls for wage moderations have been popular among European policy makers during the EDC and therefore makes sense to include them in the analysis. To obtain a more accurate result, it is necessary to disaggregate each of these policy actions into specific recommendations further.

Table 4.2

Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP
	Reduction of Public Expenditure/Spending Reviews
	Public Debt Sustainability Measures
Tax Revenue	Broadening the Tax Base
	Increase on income or consumption taxes
	Enabling Tax Incentives
Public Sector Reform	Reduction or freezing of Civil Employment
	Reduction or elimination of benefits and pensions
Labour Market Reform	Wages: Level, Structure and Public Sector
Source: (Broome 2015) and personal modifications.	

While Broome uses this classification to test the possible changes at a global level, including countries with very distinct characteristics, I only focus on countries subject to similar legal and institutional rules. It goes without saying that the EU has exerted some influence in the design of the bailout packages and that, due to the distinct size of these packages, policy recommendations will slightly differ from one country to another. But, as mentioned in the previous chapter, IMF's best practices have become the basis of EU's economic governance and therefore are similar enough to include them in the same study.

With the purpose of coding qualitative concepts into a quantitative term, I 'count' how often the policy actions described above are explicitly mentioned in each of the reports referring to EMS economic policy-making. Nonetheless, this procedure poses a problem regarding the documents used by the IMF to 'communicate' its position. Some of the EMS have received financial help, while other have not, or have received only indirectly. That is why I analyse the reports in two groups. First, I will test Spain and Italy, two economies that, despite having remained out of IMF's direct supporting programs,²¹ involve a systemic risk for the European and, in extension, global economy. I will follow up with the analysis of the three economies that have received direct IMF funds; Greece,

²¹ In chapter 2, I explained how an emergency funding line was enabled for the Spanish banking system by the ESM, but the government remained out of any bail-out programs designed by the IMF.

Portugal and Ireland. Finally, I exclude Cyprus from such analysis because of the relatively small size of its economy and the bailout package.²²

As the two groups have distinctive characteristics, it is necessary to use different documents. The cases of Spain and Italy imply a more general approach, where the IMF can only play a supervisor and advisor role. There is a slight difference as Spain was granted access to ESM funds. While the IMF helped design the conditional measures for the Spanish government, there is no IMF-exclusive document where this issue is addressed. I consider that it is methodologically more sensible to base the analysis on Article IV Consultations rather than risking including additional mixed documents where IMF's views might be influenced by other institutions such as the Commission or the ECB. IMF's Article IV Consultation is an annual report published for each country where the institution prints its official position and is the "main instrument through which the IMF exercises its bilateral surveillance activity" (Roy and Almeida Ramos 2012). In the document, the IMF oversees national policies and introduces new proposals that can later be adopted, or not, by the counterparty. These documents will be used for Spain and Italy as they imply a more general approach and broader policy goals. Nonetheless, they cannot be used in the study of the other group as availability is limited and the number of reports available would not provide a large enough sample to withdraw any valid conclusions.²³

In times of crises, when a member applies for an emergency funding line, it is subject not only to an initial assessment but also to periodically reviews where the IMF evaluates the on-going process as well as proposes new policy solutions. Unlike Article IV Consultations, these documents have a stronger legal nature, as the release of additional funds is conditional on the accomplishment of pre-established results. Furthermore, when a program is officially concluded, the IMF still conducts post-program reviews where it evaluates on-going progress and proposes additional measures to consolidate the achievements accomplished by the reform programs. As financing packages are country-specific, the number of documents available for each EMS will vary. These documents will be the base of the analysis for Greece, Portugal and Ireland since they all have been subject to the same process, thereby providing a more accurate result.

²² Cyprus received a total amount of €10 billion made available on April 2013 by the IMF, the EU and the ECB. The IMF 'only' contributed with approximately €1 billion (IMF 2013), a substantially smaller amount than other programs.

²³ Article IV Consultations are conducted by IMF's staff, but national governments reserve the right of making them publicly available (Roy and Almeida Ramos 2012).

Once the quantitative results are obtained, I will withdraw the main conclusions. For this, I find necessary to embed these results in a broader context. In addition to bilateral surveillance, the IMF conducts a multilateral fiscal policy analysis through global reports such as the WEO and Fiscal Monitor reports. They reflect IMF's official views on global dynamics and the Fund's latest economic forecasts.

In the next section, results are presented.

6. Analysis & Findings

In this section, results from the study are analysed. The annexe contains the tables with the numeric results. This chapter provides the qualitative interpretation of these results to answer the research question. To have a more accurate picture, results are addressed first on a global policy context and later, by policy area.

IMF's preferences are regularly expressed in the WEO and Fiscal Monitor reports. While these are strong indications on IMF's policy preferences, they usually evaluate, rather than guide national economic policy. Within this context, the Fund might highlight an issue or hail a policy action, but it leaves to members' authorities the right to apply its own approach. Thus, it is not rare to see broad guidelines regarding fiscal policy, rather than specific recommendations.

In the initial stages of the EDC, IMF's position was exclusively influenced by the old estimation of fiscal multipliers as shown by the October 2010 WEO report, which stated that “[a] key result is that fiscal consolidation is typically contractionary. A fiscal consolidation equal to 1 percent of GDP typically reduces real GDP by about 0.5 percent after two years” (IMF 2010a). When embedded in a European context, the IMF decisively supported the austerity approach put in place by European institutions. In the same report, the IMF claimed that “[f]iscal policies are generally appropriate as currently planned in the euro area economies” (IMF 2010a) and that “over the long term, reducing debt is likely to be beneficial” (IMF 2010a). At the time, fiscal consolidation and debt sustainability seemed to be IMF's major concerns. This view was extended to 2011, although some exceptions were noted. The September 2011 WEO welcomed new proposals to tighten fiscal policy (IMF 2011a) while the 2011 Fiscal Monitor advocated for complementing fiscal consolidation with fiscally neutral “pro-growth” policies such as increasing the VAT in certain products to offset the reduction of payroll taxes aimed at stimulating aggregate demand (IMF 2011b). Nonetheless, as risks of contagion intensified, fiscal consolidation and the obligation to meet fiscal targets returned as “an obvious priority” (IMF 2012a). In the following years, despite advocating for some accommodative policies (IMF 2014b) and pro-growth initiatives, IMF's reports tend to go in the direction of fiscal and debt sustainability. In addition, they highlight the need to advance into a more effective tax system (IMF 2013a), a more efficient public

administration and a more flexible labour market (IMF 2015a). The October 2016 WEO Report further emphasises the need in deepening the reforms in these areas (IMF 2016a).

Although these reports lead to think that the IMF has not departed from the fiscal stance characteristic of the Washington Consensus, it is necessary to disaggregate and analyse it separately.

Fiscal Consolidation and Debt Sustainability

Numeric results reveal that Spain and Italy experienced similar developments, probably because of their systemic nature. Reports at the beginning of the EDC reflect an increased attention to all three levels. Explicit mentions to deficit reductions and expenditure cuts are recurring in a time when ‘below-one’ fiscal multipliers endorsed such policies. The pro-austerity status-quo, represented mainly by German representatives, was barely challenged. Likewise, the IMF praised the aggressive consolidation plan designed by the Greek authorities in the first bailout program (IMF 2010b). To some extent, the plans put in place by the Portuguese and Irish government showed the same pattern, notably on expenditure cut recommendations; an IMF that was satisfied with the potential fiscal tightening.

Between 2011 and 2013, among fears that its recommendations are not contributing to improving economic conditions, the IMF relaxes its consolidation requirements for Spain and Italy while it places its emphasis on debt sustainability.²⁴ In the 2012 Spain Article IV Consultation, the IMF suggests that “medium-term targets are broadly appropriate, but a smoother path would be more desirable during a period of extreme weakness, when multipliers are likely to be particularly large and the tax base soft” (IMF 2012b) acknowledging the possibility of alternative fiscal multipliers. Nonetheless, in 2013 it admits that “recovery may also benefit from more growth-friendly fiscal measures” (IMF 2013b). Nonetheless, results show that the IMF slightly intensifies its fiscal policy requirements for Portugal and Greece as the EDC places Spain and Italy on a cliff edge after the Greek second bailout program is approved.

After the worst stage of the EDC had passed the IMF placed less emphasis on fiscal consolidation and went back to suggesting policy actions which embraced other solutions.

²⁴ Italy had in 2012 a debt-to-GDP ratio of almost 125% while Spanish public deficit was over 10% of its annual GDP, an unsustainable number for the Eurozone’s third economy. Data from the WEO Database.

The disappointment of the first Greek bail-out pushed the institution into calling for a slightly distinct approach. While fiscal consolidation continued to be the underlying policy norm, the IMF admitted that the Greek bailout package had relied “far too much on discretionary spending cuts” (IMF 2013c). Based on numeric results, it has, to some extent, stabilised its consolidation demands on Portugal, Greece and Italy, while it has intensified them for Spain. In the latest WEO Reports (IMF 2015b), the Fund calls for countries to follow the GSP rules but it also encourages members with enough fiscal space to undertake a fiscal expansion

Based exclusively on fiscal consolidation one could argue that the IMF’s stance has changed little throughout these years. Nevertheless, results show that on debt sustainability issues, it has adopted a more ambiguous approach.²⁵ It is true that, as debt levels spiked, until the end of 2013, IMF’s concerns and recommendations increased, notably in Italy and Greece. The later registers in 2013 a primary surplus for the first time in years, which might help explain why after 2013, recommendations on the sustainability of the debt-to-GDP ratio are relaxed. Simultaneously, calls for increased European cooperation in bringing forward debt relief proposals were recurrent over the reviews of the second Greek bailout program, which, however, was not to come cheap for the Greek economy. It included conditions such as the deepening of structural reforms aimed at achieving sustainable public accounts (IMF 2013c). The official stance was that, except for some measures such as additional debt relief by the European private banks, fiscal consolidation and debt reduction initiatives were still preferred to increased flexibility in complying with pre-established rules. In fact, in the fourth review of the second Greek bailout program, the IMF affirms that “[t]he assurances from Greece’s European partners that they will consider further measures and assistance, if necessary, to reduce debt to substantially below 110 percent of GDP by 2022, conditional on Greece’s full implementation of all conditions contained in the program, are welcome” (IMF 2013d).

So far, I have mostly analysed the cases of Italy, Spain, Portugal and Greece. Ireland deserves a special focus. Results show that, since the beginning of the program, IMF’s explicit recommendations, except for a small spike in expenditure reduction measures between 2013 and 2015, were reduced over time. This could be the result of two factors;

²⁵ Note that, although it is not part of the study, the IMF strongly recommends the restructuring of members’ private debt unsustainable levels. Mentions are plenty throughout the timeline, especially in those countries where private debt-to-GDP ratio rank among world’s highest. Since this issue would involve a long discussion, I only analyse IMF’s focus on public debt sustainability.

first, the improving economic conditions, and secondly, the correct implementation of the initial program. They are likely to be related. The post-program reviews show how the IMF adopted a more flexible stance towards Ireland's consolidation efforts. In the first post-program review "staff considers that significant additional consolidation should not be implemented" (IMF 2014c). Such sentence is nonetheless misleading since it does not mean that the IMF calls for expenditure measures. On the contrary, it still advocates for fiscal austerity, as shown in the third post-program review: "Ireland's economic rebound is in full swing, yet fiscal restraint must be maintained in 2015" (IMF 2015c). The latest review, conducted in early 2017, hails Ireland's track record in undertaking the fiscal consolidation plan and assures that programs objectives are broadly appropriate, serving the IMF as a perfect example of how such approach can work. As a result, Ireland has averaged a growth of 10% over the past four years.²⁶ The latest example is IMF's opposition to the measures suggested by the new Portuguese 'pro-growth' government calling for additional stimulus (IMF 2016b).

Overall, it could be argued that IMF's approach throughout the process followed a common trend. First, they imposed hard restrictions on receiving countries based on their views on fiscal multipliers, as shown by WEO reports. As economic conditions improved, the IMF called for more flexibility, but always under certain restraints, and within the priority of maintaining sustainable public accounts. Another conclusion of this section is that, at least regarding the deficit and debt sustainability, the IMF's tailors its recommendations to each EMS' circumstances. While one could argue that the IMF has adopted a more flexible approach over the past few years, but I consider that such flexibility is limited and only when there is fiscal space for such. The IMF remains within the principles of fiscal consolidation, which is advocated in times of fiscal difficulties, a key principle of the Washington Consensus.

²⁶ Such a high rate is caused by the 26% growth of 2015. While it is commonly argued that such a high rate is the result of statistical measurement changes, it is still reflected in IMF's WEO database thereby being the official number.

Tax Reform

In its initial stages, fiscal consolidation focused on the expenditure side. For Portugal, two-thirds of such program were expenditure-based (IMF 2011c). Likewise, for Italy, it was close to three-quarters (IMF 2011d). This pattern aligns with Washington Consensus' guidelines, which prioritise spending cuts to tax hikes (Williamson 1990). Nonetheless, measures on the revenue side of the equation were needed to complement the expenditure-based consolidation.

The IMF highlights the need for broadening the tax base. Countries with a poor record of revenue collection, Greece, Italy and Spain, are explicitly addressed in this area. One of the most frequent requests is the need for a proper plan against tax evasion (IMF 2011d, 2011e, 2013e, 2014d) as well as further measures advocating for tax systems efficiency improvements, notably between 2012 and 2015. The IMF specifically suggests measures such as the real-estate tax in Italy (IMF 2010c), the carbon tax in Ireland (IMF 2010d) or the reduction of housing and energy tax credits in Spain. While the results show that there is a small reduction of these recommendations in the most recent reports, the IMF is explicitly clear in the need to reform tax codes, accomplish more efficiency in collecting taxes and, to reform the judicial system by which tax evasion is processed in order to obtain a sustainable revenue stream.

On the other hand, results show that reforms of the Personal Income Tax (PIT) and the VAT were not as common as expected. Reports encode not only increases of such taxes but also eliminations of some exceptions and reforms to make them more efficient. However, the IMF was not so keen on tax increases themselves but was rather an advocate of tax harmonisation to achieve higher trade flows between EMS. Within this context, it suggested to countries whose VAT and PIT rates were below 'European standards' to modify them. For instance, in Spain, the IMF called for an increase in the consumption tax and the elimination of certain VAT exceptions (IMF 2010d, 2011f, 2012b). Beyond these specific measures, it rarely suggested further actions, other than improving VAT collection efficiency and diminishing the risk of tax evasion.

The third level to analyse to what extent the IMF has shifted to an alternative approach regarding tax preferences is to measure how it has behaved in terms of fiscal incentives. Results show that, as events unfolded and economic recovery picked up, the IMF strongly supported introducing tax incentives to stimulate the economy, which contrasts with its

behaviour towards the expenditure-based stimulus. These recommendations range from removing certain taxes, lowering PIT thresholds or introducing hiring incentives. One of IMF's preferred measures is the need to reduce the tax wedge, more recently emphasised at a global level in the 2016 WEO Reports (IMF 2016a, 2016c).²⁷ This may lead to think that the IMF was seeking to stimulate the economy. It must be analysed however within other references to such measures. In this sense, it always encouraged them as long as they were implemented in a “fiscally neutral manner” (IMF 2013e), ruling out any stimulus that would, in the end, damage the long-term prospects for the sustainability of public accounts.

Since an effective tax reform is a must for a sustainable fiscal consolidation, IMF's position on the revenue side follows the same guidelines explained in the expenditure one, which means that whenever it is fiscally possible, members should implement tax incentives to promote economic growth. Although it is stated that tax incentives are preferred to spending stimulus, results continue to show that the IMF keeps the long-term sustainability of public accounts and market's confidence in the system as the golden rules of its recommendations, which differs little from what the Washington Consensus dictates, namely, broadening the tax base and reducing marginal rates to foster economic growth (Williamson 1990).

Public Sector Reform

One of the most controversial reforms laid out in the bailout programs were the public-sector reforms imposed by the IMF and European institutions. Nonetheless, the question remains whether it was the IMF exclusively or its partners, namely the Commission and the ECB, who pushed for such reforms.

Results reveal that, except for the initial stages of the programs in oversized public sectors such as Italy, Greece and Spain, and certain moments during the Greek second bailout, mentions to civil employment reductions or freezes were limited compared to other policy areas. In fact, in the Greek case, arguably the largest public-sector-to-GDP in the Eurozone, the IMF advocated for a “one-to-one rule” (IMF 2011g). When reports are deeply studied one can find that references to this area did not exactly support the

²⁷ The Tax wedge is defined as “the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer” <https://data.oecd.org/tax/tax-wedge.htm>

reduction of the public sector but rather the “support of a modern and well-functioning state” (*Ibid.*). In this direction, the IMF called for introducing regulatory and control measures to increase public sector’s efficiency to align Southern economies with its Northern neighbours’.

On the other issue, particularly pensions and benefits reform, the IMF took a more active stand, as recommendations are constantly introduced in the reports with the goal of putting the pension systems on a “viable footing” (IMF 2013f). A very strong emphasis was put at the beginning of the EDC in countries whose pension systems had not been reformed in a long time, namely Spain, Italy and Greece. Portugal had accomplished an efficient pension system reform in 2007, which was praised by the IMF. Spain’s 2010 and Italy’s 2011 pension reforms, which included features such as the increase of the retirement age to 67 years old, the tightening of the criteria for early retirement, and the introduction of a sustainability factor, were also positively addressed by the IMF (IMF 2011f). Furthermore, it also called for complementing the public pension scheme with private pension funds to alleviate the pressure on the sustainability of public accounts.

Overall, in comparison to the previous policy areas, the IMF was characterised for its appeals to ‘efficiency’ and ‘long-term sustainability’ of the public sector. Although it looks very similar to the language used in the fiscal consolidation and tax reform domain, it does not necessarily support scaling the public sector down. It is evident that, as results show, under certain circumstances, some public-sector cuts and employment reductions, were advocated, but it could be argued, that in this area, the IMF was relatively softer and more flexible than the European institutions.

Labour Market Reform

Although labour market reforms do not fall exclusively under the scope of fiscal policy, they affect to the level of revenues of the State and the speed of the economic recovery. Thus, it is one of the key issues addressed by international actors, being the IMF no exception.

In the European case, the IMF has adopted a different position to each of the EMS. Results show that despite diverging trends in labour market recommendations, they peaked in 2012, during the worst times of the EDC.

In the cases of the systemic economies, specifically Italy and Spain, the IMF was insistent between 2010 and 2012 in tackling the structural weaknesses of their labour markets. Among other measures, it placed its efforts on the revision of wages levels, which it claimed was above productivity levels (IMF 2011d, 2011f). Furthermore, it emphasised the need to reform the collective bargaining model, the elimination of labour market duality and the need to tackle the lack of flexibility which blocked higher participation rates. According to the results, mentions addressing these issues decreased over the years, partly because of the two labour reforms in both countries in 2012, which were later praised by the IMF. Nonetheless, the Spanish and the Italian labour markets are still under constant scrutiny. The Fund still insists on “keeping wage growth aligned with productivity and external competitiveness developments” (IMF 2015d) and “prioritizing firm-level agreements over higher-level ones; making it somewhat easier for firms in economic difficulties to ‘opt-out’ from higher level agreements; and limiting ultra-activity (the period during which an expired agreement would remain valid)” (IMF 2016d).

In Greece and Portugal, results show that the major focus was between 2011 and 2014. Even though the IMF placed more attention on this topic, it still exhibits an ambiguous approach. In Greece’s reports, it stated that “labour has shouldered too much of the burden as lower wages have not resulted in lower prices” (IMF 2013c), which contrasts with the Portuguese case, where the IMF has endorsed the freezing of public employees’ salaries (IMF 2012e). More recently, it has warned the new government against the negative impact of raising the minimum wage (IMF 2017b). In Ireland, the Fund pushed for wage growth to remain flat, but this position has somehow softened as the country shows improving economic conditions.

Overall, results depict an IMF strongly worried about labour market conditions during the first years of the EDC. It advocated for the liberalisation of the market, mainly by recommending increasing flexibility in the negotiations of wages. While this aligns with the principles of the Washington Consensus, it is also clear that the institution has softened its perspective over the last few quarters.

7. Conclusions & Future

This document has provided an extensive study on one of today's most relevant topics at a European level, its economic governance framework. As the most influential economic international institution, the IMF has played a crucial role in the design of mechanisms aimed at softening the effects of the EDC. Understanding the principles behind IMF's intervention may help to establish the achievements and failures of the Washington Consensus, which would ultimately ensure a more effective response to a future crisis.

I have first described the academic debate around the Washington Consensus and its evolution, with a special focus on the 2000s debate and the effect caused by the GFC. Right after, I have explained the reasons behind IMF's involvement in European affairs. Political differences have been found between the Northern and Southern member states, with special mention to the cultural differences within the Franco-German axis. Furthermore, and despite the later cooperation between the institutions, it is also clear that some European officials, notably within the ECB, were not always in favour of involving the IMF. Nonetheless, the systemic nature adopted by the EDC left them with no choice. Within this context, I have analysed IMF's conditionality, with a special focus on the late transition from its traditional rigidity towards more flexible and broader guidelines. The goal was to test whether this new approach is translated to IMF's intervention in the Eurozone.

To analyse this possible phenomenon, I designed a method which attempts to eliminate the risk of falling into an incorrect sample selection and the subjective interpretation of policy recommendations. I focused on members' fiscal policy rather than monetary, financial and structural issues. To accomplish a more detailed result, I disaggregated fiscal policy into nine narrower policy actions. The analysis was conducted in two stages; first at a global scale, by using IMF's WEO and Fiscal Monitor reports, and second, individually, based on each country's Article IV reports and programs' reviews.

Results depict ambiguous trends. At a global scale, reports show that, with a few exceptions, the IMF continues to follow the old paradigm and that two factors highly influence its recommendations: First, economic conditions, and secondly, the magnitude of estimated fiscal multipliers. As a result, the initial stages of the EDC, the IMF prioritised balanced public accounts to the so-called 'pro-growth' policies. In this sense, it has followed the principles laid out by Williamson.

Regarding tax policy, results show that programs were considerably less insistent on this area than in the expenditure side. Results show that, in this area, the IMF aligns with the principles established in the Washington Consensus. First, advocating for broadening the tax base to increase revenue streams in complicated economic times and secondly, insisting that stimulus must come in the form of tax incentives, including lowering tax thresholds and reducing the tax wedge rather than in expenditure measures.

It is probably in the public-sector domain where the IMF diverges more from the set of policies proposed by Williamson. Results show that recommendations have focused on improving efficiency standards rather than merely scaling the public sector down. On the other hand, it has put a strong emphasis on pension systems reform, urging members to introduce sustainability mechanisms and encouraging them to incentivise the complementation with private pension schemes.

Finally, on the labour market field, its position has been softened over time, especially for Greece and Ireland, but, as results show for other countries, the IMF is still a strong advocate of wage moderation and flexible wage-setting frameworks.

Overall, two major conclusions can be withdrawn from the study. First and foremost, it can be concluded that, to a significant extent, the IMF continues to adopt the same approach that it did in the past. Results show that only regarding the public-sector reform there is enough evidence to state that there has been a transition towards a more flexible framework. Thus, the ‘paradigm shift’ away from the Washington Consensus is not only limited but also unlikely to be completed soon at a European level. Secondly, the study reveals that the ‘one-size-fits-all’ policies criticised by many economists, is to a substantial extent, not present at a European level. While there is evidence that the IMF still follows certain guidelines, it is also true that programs have displayed significant differences at similar times. The Fund has adapted to each country’s economic conditions, as shown especially by the Irish case.

What Lies Ahead?

It seems obvious that both institutions have benefited from each other in the creation of a new governance framework. As explained in the second chapter, the Fund has been able to embed its programs in a broader policy context, and the EU has acquired its first experience in handling a major global crisis as a Union. Today’s EU firewalls against

future economic crises are a true reflection of IMF's structures and practices, which would induce to think that future cooperation is locked in, but in fact, the future remains uncertain for two reasons.

First, the next round of the Greek bailout. Greece continues to be a headache for European officials. Although data suggests that the situation has improved considerably, collateral risks from previous programs still exist. The need for enabling an additional funding line has revived some of the differences between members, the Commission, the ECB and the IMF. Although the first disbursement of this bailout, consisting of a €8.5 billion loan, has been already agreed, some frictions remain, as shown by the German finance minister, who blamed Greece for the slow pace of the negotiations (Buerquin 2017). While the agreement is a significant step forward, as it allows the Greek government to meet its July obligations, IMF's involvement is only partial, meaning that it approves and joins the program but the availability of IMF's funds will be conditional to future evaluations of Greece's debt sustainability.

The official status of Greece's debt is what keeps both parties confronted. The EU wants IMF's reputation, expertise and credibility on board, but the Fund needs Greece's debt to be declared unsustainable which would, inevitably, involve the implementation of another debt relief plan, something that neither Germany, the Netherlands or Finland, among others, are willing to accept. The institutional argument claims that IMF's internal rules prevent it from loaning money to countries whose debt is unsustainable. If it agreed to unlock additional financial help, it would compromise its reputation, and it would face claims of preferential treatment towards Greece. The technical argument indicates that, despite Greece's recent performance regarding a primary surplus, which sufficiently meets previous targets, the IMF is still sceptical on whether this trend can be sustained over time (Sotiris 2017). In this sense, IMF's views align with the Greek authorities on the problem, but not the solution. While the second demands a nominal write-off its debt face value, the first, with the support of European leaders, advocates for an improved debt management, which would take place in two stages. First, shielding debt from expected interest rates hikes, and secondly, limiting interest payments and extending loan maturities (Dendrinou 2017). The Greek government, who also seeks debt relief measures because it would mean having access to ECB's QE program, is likely to oppose such position.

Markets have so far welcomed the agreement, but further talks regarding debt sustainability are unlikely to resume any time before the German general elections in September since Merkel's government will not risk securing an agreement that does not satisfy the German public opinion (M. Khan 2017).

The second major threat to future relations is the stand adopted by the new US government. The new administration has openly questioned the role of numerous international institutions, including the IMF. The Fund's Managing Director has already criticised Trump's stance on global trade (IMF 2017c). The institution has traditionally been a strong advocate of globalisation, especially in the field of financial markets.

From an institutional point of view, the US holds the largest voting power at IMF's Executive Board, which, together with the Board of Governors, approves major programs. Normally, these are made based on consensus, but if it goes to a vote, it is almost crucial to have the US on your side. If the conditions of the Greek bailout program do not satisfy the Washington Administration, there may be a possibility of having the IMF opposed to the program, even if its current demands are met. European leaders are nonetheless, positive about future relations. Wolfgang Schäuble admits that they will be a "little more difficult" but is confident that in the end, the "substance" of American policy will prevail and will make both blocks cooperate in this domain (Miller, et al. 2017).

The EU must, however, be prepared. After the UK's decision to leave the EU, arguably the most reluctant member to move into a supranational economic governance framework, some proposals have been brought forward to advance towards the creation of a European Monetary Fund, which would unbind the EU from the influence of the US in the IMF. What seems an appealing solution, would involve taking several pre-steps, including the deepening of the banking union and tackling the governance weaknesses of the current ESM, the stepping stone to the creation of the European Monetary Fund (Sapir and Schoenmaket 2017). Although the future remains uncertain, it is undeniable that the new EU-US relationship will shape the future of a Washington Consensus that has been shaping global crisis management for almost three decades.

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8. Annex

ITALY²⁸	ARTICLE IV	2010	2011	2012	2013	2014	2015	2016
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	8	6	2	3	1	0	0
	Reduction of Public Expenditure/Spending Reviews	20	23	19	9	8	9	6
	Public Debt Sustainability Measures	11	2	5	9	10	9	8
Tax Revenue	Broadening the Tax Base	4	11	8	18	9	5	6
	Increase on income or consumption taxes	0	2	3	1	1	0	1
	Increasing Tax Incentives	3	3	11	12	9	10	6
Public Sector Reform	Reduction or freezing of Civil Employment	5	5	5	3	5	3	4
	Reduction or elimination of benefits and pensions	20	9	4	0	4	2	1
Labour Market Reform	Wages: Level, Structure and Public Sector	4	7	8	5	3	4	4
IMF's	TOTAL RECOMMENDATIONS	75	68	65	60	50	42	36

SPAIN²⁹	ARTICLE IV	2010	2011	2012	2013	2014	2015	2016
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	5	8	4	2	4	3	2
	Reduction of Public Expenditure/Spending Reviews	7	10	8	3	4	1	5
	Public Debt Sustainability Measures	4	5	5	5	4	6	9
Tax Revenue	Broadening the Tax Base	4	2	5	5	8	3	4
	Increase on income or consumption taxes	3	2	3	2	4	1	2
	Increasing Tax Incentives	5	0	1	4	6	4	5
Public Sector Reform	Reduction or freezing of Civil Employment	1	2	3	2	1	0	0
	Reduction or elimination of benefits and pensions	7	4	0	3	0	0	0
Labour Market Reform	Wages: Level, Structure and Public Sector	12	7	10	7	5	5	3
IMF's	TOTAL RECOMMENDATIONS	48	40	39	33	36	23	30

²⁸ (IMF 2010c, 2011d, 2012c, 2013g, 2014e, 2015e, 2016e)

²⁹ (IMF 2010d, 2011f, 2012b, 2013b, 2014d, 2015d, 2016d)

GREECE I ³⁰	STAND-BY AGREEMENT, REVIEWS AND EVALUATION	2010			2011		
		Staff Report on Request for SBA	First Review	Second Review	Third Review	Fourth Review	Fifth Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	3	3	4	2	2	2
	Reduction of Public Expenditure/Spending Reviews	9	11	7	8	7	9
	Public Debt Sustainability Measures	6	3	4	3	10	10
Tax Revenue	Broadening the Tax Base	8	8	9	7	8	8
	Increasing income or consumption taxes	3	0	1	1	2	2
	Introducing Tax Incentives	0	1	1	0	4	4
Public Sector Reform	Reduction or freezing of Civil Employment	3	3	4	2	6	6
	Reduction or elimination of benefits and pensions	8	4	5	2	3	4
Labour Market Reform	Wages: Level, Structure and Public Sector.	8	3	2	4	8	10
IMF's	TOTAL RECOMMENDATIONS	48	36	37	29	50	55

GREECE II ³¹	AGREEMENT UNDER THE EXTENDED FUND FACILITY, REVIEWS AND EVALUATION	2013				2014
		Staff Report on Request for EFF	First and Second Reviews	Third Review	Fourth Review	Fifth Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	3	1	0	0	0
	Reduction of Public Expenditure/Spending Reviews	9	6	4	5	3
	Public Debt Sustainability Measures	7	10	6	4	3
Tax Revenue	Broadening the Tax Base	8	6	4	6	4
	Increase on income or consumption taxes	3	3	0	0	2
	Increasing Tax Incentives	3	3	2	0	2
Public Sector Reform	Reduction or freezing of Civil Employment	5	2	2	3	2
	Reduction or elimination of benefits and pensions	5	3	1	0	1
Labour Market Reform	Wages: Level, Structure and Public Sector.	9	4	1	1	1
IMF's	TOTAL RECOMMENDATIONS	52	38	20	19	18

³⁰ (IMF 2010b, 2010e, 2010f, 2011g, 2011h, 2011e)

³¹ (IMF 2012d, 2013c, 2013h, 2013d, 2014f)

PORTUGAL ³²	THREE-YEAR ARRANGEMENT UNDER THE EXTENDED FUND FACILITY	2011		2012		2013 <i>Álvaro Portes N2014ro</i>		
		Request for the EFF	First Review	Third Review	Fifth Review	Seventh Review	Eighth & Ninth Review	Eleventh Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	1	1	1	1	2	5	2
	Reduction of Public Expenditure/Spending Reviews	7	4	2	2	3	3	1
	Public Debt Sustainability Measures	2	3	2	2	3	3	5
Tax Revenue	Broadening the Tax Base	4	2	2	1	3	2	2
	Increase on income or consumption taxes	4	0	0	2	1	1	1
	Increasing Tax Incentives	0	0	2	1	2	1	0
Public Sector Reform	Reduction or freezing of Civil Employment	2	1	2	2	2	2	1
	Reduction or elimination of benefits and pensions	1	0	0	1	2	2	3
Labour Market Reform	Wages: Level, Structure and Public Sector	4	2	2	4	3	5	3
IMF's	TOTAL RECOMMENDATIONS	25	13	13	16	21	24	18

PORTUGAL ³³	EFF POST PROGRAM REVIEWS	2015		2016	2017
		First Post Program Review	Second Post Program Review	Third Post Program Review	Fifth Post Program Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	3	2	2	1
	Reduction of Public Expenditure/Spending Reviews	3	6	3	2
	Public Debt Sustainability Measures	2	4	4	3
Tax Revenue	Broadening the Tax Base	3	1	0	0
	Increase on income or consumption taxes	0	1	1	0
	Increasing Tax Incentives	3	1	1	2
Public Sector Reform	Reduction or freezing of Civil Employment	2	2	2	1
	Reduction or elimination of benefits and pensions	5	1	2	1
Labour Market Reform	Wages: Level, Structure and Public Sector	5	2	2	3
IMF's	TOTAL RECOMMENDATIONS	26	20	17	13

³² (IMF 2011i, 2011j, 2012e, 2012f, 2013e, 2013i, 2014g)

³³ (IMF 2015f, 2015g, 2016b, 2017b)

IRELAND ³⁴	ARRANGEMENT UNDER THE EXTENDED FUND FACILITY	2010	2011		2012		2013	
		Request for the EFF	First & Second Review	Fourth Review	Sixth Review	Eighth Review	Tenth Review	Twelfth Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	3	2	2	0	1	0	1
	Reduction of Public Expenditure/Spending Reviews	5	4	5	6	4	1	3
	Public Debt Sustainability Measures	10	6	8	6	7	6	4
Tax Revenue	Broadening the Tax Base	5	2	2	2	3	1	4
	Increase on income or consumption taxes	2	0	2	0	1	0	1
	Increasing Tax Incentives	1	2	0	2	2	0	2
Public Sector Reform	Reduction or freezing of Civil Employment	2	0	1	1	2	1	1
	Reduction or elimination of benefits and pensions	1	1	1	2	1	1	1
Labour Market Reform	Wages: Level, Structure and Public Sector	2	1	2	3	3	1	2
FISCAL POLICY	TOTAL RECOMMENDATIONS	31	18	23	22	24	11	19

IRELAND ³⁵	EFF POST PROGRAM REVIEWS	2014	2015		2016	2017
		First Post Program Review	Second Post Program Review	Third Post Program Review	Fourth Post Program Review	Sixth Post Program Review
Fiscal Consolidation + Sustainability	Reduction of Fiscal Deficit/GDP	0	1	0	0	0
	Reduction of Public Expenditure/Spending Reviews	4	5	2	0	1
	Public Debt Sustainability Measures	2	3	3	3	3
Tax Revenue	Broadening the Tax Base	1	0	1	1	1
	Increase on income or consumption taxes	1	0	0	0	0
	Increasing Tax Incentives	0	0	1	0	1
Public Sector Reform	Reduction or freezing of Civil Employment	2	1	1	0	0
	Reduction or elimination of benefits and pensions	0	0	0	0	0
Labour Market Reform	Wages: Level, Structure and Public Sector	0	1	1	0	0
FISCAL POLICY	TOTAL RECOMMENDATIONS	10	11	9	4	6

³⁴ (IMF 2010d, 2011k, 2011l, 2012g, 2012h, 2013j, 2013k)

³⁵ (IMF 2014c, 2015h, 2015c, 2016f, 2017d)

