GEG Working Paper 136
October 2017

The Fund as 'junior partner'? IMF-RFA crisis lending and regime complexity

Ivaylo Iaydjiev

The Fund as 'junior partner'? IMF-RFA crisis lending and regime complexity

Ivaylo Iaydjiev[1]

Paper prepared for the 11th EISA Pan-European Conference on International Relations, "The Politics of International Studies in an Age of Crisis", Barcelona, 13-16 September 2017

*Preliminary version, please **do not cite** without permission.*

Abstract

What is the impact of the simultaneous expansion and fragmentation of the global financial safety net on the IMF? The Fund used to be central to global financial governance, but the proliferation of regional financing arrangements (RFAs) over the past decade has dramatically reshaped the institutional environment. The resulting dynamics have been observed in a number of controversial IMF-EU financial assistance programs in Europe.

Drawing on regime complexity approaches, this article argues that partially overlapping institutions alter the bargaining balance between the IMF and debtor and creditor states. Their presence introduces a new outside option for financial assistance that under certain conditions allows creditor and borrower states to threaten to exclude the Fund from a program. However, the IMF can also strategically draw on complementarities with RFAs to increase its ability to translate preferences into program design. In turn, this has implications about whose preferences – creditors, borrowers, or Fund staff - ultimately shape program design.

This argument is illustrated with relation to the Latvian crisis of 2008-2011. Despite significant misgivings over the design of the financial assistance program, the IMF found itself unable to threaten to 'walk away'. Such behaviour is traced to the instrumentalization of a more competitive institutional environment by the borrower rather than established state-centric or staff-driven accounts.

The Global Economic Governance Programme is directed by Emily Jones and has been made possible through the generous support of Old Members of University College. Its research projects have been principally funded by the Ford Foundation (New York), the International Development Research Centre (Ottawa), and the MacArthur Foundation (Chicago).

[1] Blavatnik School of Government and St Antony's College, University of Oxford.
Contact author at: ivaylo.iaydjiev@bsg.ox.ac.uk

© October 2017 / GEG WP 136

Table of Contents

Introduction	3
1. The dynamics of IMF-RFA cooperation: A regime complexity perspective	5
1.1 The limits of existing explanations	5
1.2 A regime complexity perspective	6
1.3 Research design and case selection	8
2. The IMF in Latvia (2008-2011) – A junior partner	12
2.1 Latvia's boom and bust: "Nothing special"	12
2.2 Competing explanations	15
2.3 The design of the IMF-EU financial assistance program	19
Conclusion and implications	25
References	27

© October 2017 / GEG WP 136

Introduction

At first glance, the 2008 Latvia IMF-EU program appears to be a classic case of crisis management by the IMF. Latvia went through a boom fuelled by high corporate borrowing and large scale foreign bank inflows, which served to finance ever-growing current account deficits. Once the global financial crisis hit, it experienced a classic 'sudden stop' of capital inflows, prompting an intervention from the IMF and European partners. In addressing the situation, the country insisted on maintaining a currency peg, which implied undertaking draconian fiscal consolidation that numerous outside economists saw as simply delaying the inevitable. Yet, a closer look at the program negotiations reveals that it was the Europeans, not the IMF, that "rescued" the Washington consensus (Lütz and Kranke 2014). Indeed, the Fund argued against the design of the eventual program, most notably by supporting an upfront devaluation against the wishes of local authorities and EU institutions.

Why did the IMF agree to a program that it believed was ultimately doomed to fail? Fund staff and management had consistent views they voiced repeatedly, expressing a strong preference for devaluation as this would have allowed for a less 'draconian' program. Indeed, many felt they were putting money and reputation on the line in a way, which strongly reminded them of Argentina, taken as a prime example of what *not* to do within the Fund. In previous cases, small countries would likely have been forced to devalue their currencies given that they had little choice but to agree to the conditions imposed by the IMF under the pressure of an imminent financial collapse. However, in Latvia the Fund found itself for first time in its history forced into the role of a 'junior partner', both in terms of financing and influence.

Latvia is therefore illustrative of a larger set of dynamics that occur when the IMF co-exists and co-lends with regional financing arrangements (RFAs). This is a relatively recent experience for the Fund, which has so far been empirically limited to Europe[2], but is often associated with particularly big and controversial loans. However, RFAs have proliferated over the past decade and now cover 81 different countries across Europe, the Middle East, East and Central Asia, and Latin America (IMF 2017b, p. 8). Between 2008 and 2013, their total resources skyrocketed from around $18 bn to over $873 bn, which meant they jumped from barely 5% of IMF resources to 114% (IMF 2013a). Therefore, whereas before 2008 the Fund could be considered as 'the only game in town' when it came to crisis lending, now the global financial safety net has become significantly more diverse and decentralized.

How does the presence of such alternatives to financial assistance affect the design of financial crisis lending programs? In short, the presence of partially overlapping institutions alters the bargaining environment between the Fund and its creditors and debtors by introducing a new outside option. In contrast to previous programs, the presence of an alternative RFA opens new pathways to financial assistance, and with them, the possibility for making threats for excluding the IMF from its core activity. However, creditors and debtors use such 'exit' options to strengthen their 'voice' and bring the Fund closer to preferred policies rather than to substitute completely for its presence. In other cases, however, the IMF can also strategically draw on complementarities with RFAs to increase their joint capabilities and relax at least some of the constraints that prevent it from achieving its favoured design. In turn, this has

[2] At the time of writing, IMF experience with lending in cooperation with RFAs is limited to seven cases, all of which within the EU: Hungary (2008-10), Latvia (2008-11), Romania's successive programs (2009-2015), the three Greek programs (2010-2018), Ireland (2010-2013), Portugal (2011-2014), and Cyprus (2013-2016). Spain is a borderline case as IMF participation was restricted to technical assistance.

© October 2017 / GEG WP 136

implications about whose preferences – creditors, borrowers, or IMF staff - ultimately shape large-scale financial assistance programs.

This paper is structured in two main parts. The first part, develops the outlines of this approach in three steps. First, it reviews the existing explanations of what shapes Fund programs and assesses their applicability to understanding IMF-RFA cooperation. Second, it proposes a regime complexity approach to conceptualizing the strategic behaviour of international organizations under conditions of institutional proliferation. Third, it presents the research design of the study and the logic of case selection.

In the second part, the paper tests the plausibility of the argument vis-à-vis established theories in three sections. First, it introduces the case study by outlining the origins of the Latvian financial crisis and the exchange rate dilemma at the core of negotiations. It then develops in detail the expectations of existing explanations and of a regime complexity argument based on the characteristics of the case. Finally, it carries out a process-tracing within-case analysis to adjudicate between such explanations, focusing in particular on the influence of creditors, borrowers, and the Fund on program design in two key areas - conditionality and financing.

© October 2017 / GEG WP 136

1. The dynamics of IMF-RFA cooperation: A regime complexity perspective

1.1 The limits of existing explanations

The IMF has attracted sustained attention as one of the most consequential international organizations (IOs), particularly when it comes to shaping the policies of countries facing financial crisis through its lending facilities. State-centric explanations of IMF behaviour focus on the interests of key creditors and shareholders, such as the United States and few other advanced economies that together make up the G5 (Japan, United Kingdom, France, and Germany). Such perspectives suggest that powerful states will use their voting power at the Fund's Executive Board, as well as other, 'behind-the-scenes' means, to influence programs in cases where their financial institutions risk facing steep losses or where larger geopolitical considerations are at stake (Broz and Hawes 2006; Dreher and Jensen 2007; Oatley and Yackee 2004; Stone 2002; Thacker 1999). Such explanations would therefore expect that through formal and informal mechanisms the final program design would reflect closely the preferences of powerful shareholders when their financial or geopolitical interests are intense.

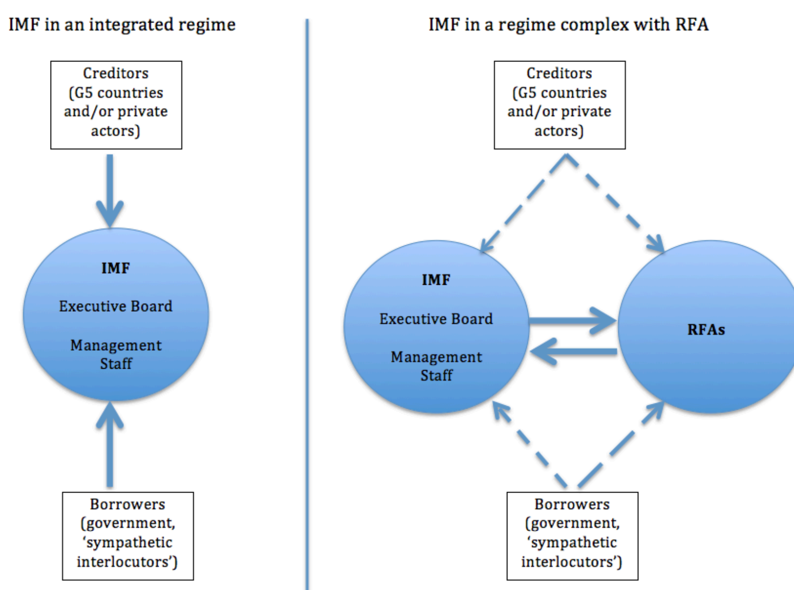
Meanwhile, staff-driven approaches point to the expertise, resources, and agenda-setting power of staff within the institution as giving them a certain degree of leverage and autonomy. Instead of relying on material resources, they would often draw on their status as bureaucracies that represent impersonal authorities or can subtly manipulate the wishes of their 'masters' in their interest (Barnett and Finnemore 2004). Staff-driven approaches therefore argue that at least in some cases it is the bureaucratic incentives or the way staff chooses to interpret its often ambiguous mandate that most readily explain IMF behaviour. In particular, variables such as shared ideational worldviews with borrowers or the desire to cultivate and strengthen 'sympathetic interlocutors' become central (J. M. Chwieroth 2013; Jeffrey M. Chwieroth 2015; Nelson 2014; Ngaire Woods 2006). The two approaches are not mutually exclusive and some scholars have sought to integrate them (Copelovitch 2010). However, generally they predict that in particular in cases where the large IMF shareholders do not have strong interests, program design would be closely aligned with Fund staff preferences.

Despite their relative success in explaining IMF behaviour, such perspectives are likely to yield biased predictions in the new institutional environment in which the IMF operates side-by-side with RFAs. Both state-centric and staff-driven accounts focus on explaining who wins in bargaining conflicts between borrowers, creditors, and staff *within* the Fund. This stems from an implicit assumption that the alternative to IMF involvement is painful adjustment without financial assistance. Such an assumption of IMF exclusivity was justified prior to the global financial crisis when there were not any large-scale alternatives. However, with the rise of RFAs the Fund now finds itself operating alongside a set of overlapping institutions that can also provide crisis lending that alter substantively the outside options of all actors involved. Therefore, maintaining the implicit assumption of 'splendid isolation' is no longer warranted as borrowers or creditors can turn to alternative institutions to receive financial assistance. In turn, this suggests that moves *outside* of the Fund can have an important effect on its behaviour.

In order to develop an understanding of the impact of RFAs on the behaviour of the IMF, this study draws on a relatively recent but rapidly increasing theoretical body concerned with 'regime complexity'. This term refers to the presence of *alternative institutions with at least*

© October 2017 / GEG WP 136

partially overlapping mandates, a development that has been well noted in a number of issue areas in world politics such as environmental or trade governance (Aggarwal 1998; Gehring and Oberthür 2009; Keohane and Victor 2011; Orsini et al. 2013; Raustiala and Victor 2004). The resulting literature has largely focused on understanding the reasons for institutional proliferation as a dependent variable, or studying the effects of such complexity in enabling cross-institutional strategies for states (Alter and Meunier 2009). Nevertheless, the regime complexity literature, while advancing quickly, has not so far paid specific attention to IO behaviour, which are still largely conceptualized as passive arenas for state actions (Betts 2013). This stands in contrast to recent studies in the literature on IOs that have demonstrated that IOs can, under specific conditions, be purposeful actors in their own right. Therefore, the goal of this thesis is to bring together the insights of regime complexity on the impact of proliferating institutions on state strategies and the recent advances in studies of IOs that specify the conditions and limits of autonomous IO behaviour.



1.2 A regime complexity perspective

How does regime complexity impact the design of financial assistance programs? The presence of overlapping institutions creates the potential for exclusion if states decide to use alternative RFAs. This can be problematic for the IMF as it could diminish its resources and influence in the future. Exclusion is painful because it undermines the rationale for the Fund's existence in the first place and can be perceived by staff as a challenge to their competency. More prosaically, the IMF generates its operating income from interest accrued from loans, meaning limited activity has a direct financial impact. The experience of the IMF in the 2002-2007 period is indicative in this respect. Over this period, benign economic conditions and suspicion towards the Fund following its involvement in Asia combined to drive demand for IMF loans to a historic low. With idle capacity, the Fund faced pressure by shareholders to downsize and eventually had to cut down it staff numbers significantly.

Alternatively, having more institutions involved can provide additional resources, knowledge, and contacts that can improve the effectiveness of an often under-powered Fund to carry out

© October 2017 / GEG WP 136

its ambitious mandate. Over the years, two particular criticisms of the IMF have been that it has limited local knowledge, given the limited time most of its officials spend in countries in the context of regular Article IV surveillance missions, and that it simply lacks the financial resources to respond to large capital account crises at a time of increasing financial globalization. The presence of RFAs is an obvious way to address both of these concerns, whereas the RFAs themselves can benefit from the high technical expertise, the cross-country experience, and, ultimately, the legitimacy of the IMF. The institutional environment therefore is neither a constraint nor an enabler – instead, its impact can vary depending on the strategies of states and IOs involved in the regime complex.

Given this, how does the presence of RFAs affect the bargaining equilibrium between creditors, borrowers, and IMF staff? A regime complexity perspective suggests that the impact of overlapping institutions depends on the incentives and capacity of states to ‘instrumentalize’ the threat of exclusion. Subject to their differing constraints, creditors and borrowers can therefore deliberately seek to 'play' institutions against each other if they are able to duplicate the functions of the IMF through an RFA. However, when states do not exhibit conflicts with the Fund, a logic of 'division of labour' will emerge, with each institution focusing on its 'competitive advantage'. In this case, the presence of alternative institutions will enable IMF staff to pursue their preferences beyond what they would be able to realize if acting solely on their own. Thus, the extent of ability to channel financial assistance through alternative channels determines which actors gains additional bargaining power in a regime complex. In Hirschamanian terms, the threat of 'exit' increases the 'voice' that actors can exercise over the terms of the programs (Hirschman 1970). These dynamics suggest three distinctive scenarios based on the extent of preference heterogeneity and financial firepower of the actors in the regime complex.

First, in cases where the interests of the G5 countries are intense and their preferences are in conflict with those of IMF staff, they are likely to strategically channel financial assistance through RFAs that they are able to control directly. As with the existing literature, such interests are likely to stem from either the exposure of ‘their’ financial institutions in the crisis country, with losses potentially ricocheting on their sovereign balance sheet, or from geopolitical interests. However, these motivations are likely to result in significantly different behaviour in conditions of regime complexity. Instead of using their formal voting power or informal ‘behind-the-scenes’ means for influence, powerful states can threaten or indeed engage in ‘competitive regime creation’ (Morse and Keohane 2014). They will then use those alternative institutions to align IMF behaviour with their preferences over program design without needing to directly engage in battles within the Fund itself. Instead, they rely on the incentives of management to remain involved in crisis lending for short-term financial benefits, but especially for the longer term organizational goal of maintain the focality and relevance of the IMF within an increasingly decentralized regime. In these cases, neither staff nor borrower preferences are likely to be significantly reflected in final program design.

Cases of intense G5 interests are likely to be high profile, but many other lending decisions occur in a context without large-scale financial or geopolitical exposure to powerful creditors. In these situations, borrower preferences within the regime complex become salient. In particular, if the borrower government has sharp disagreements with the crisis resolution strategy put forward by the Fund, it will look to receive financial assistance from other institutions such as RFAs that are more closely aligned to its preferences. However, unlike powerful creditors, borrowers are constrained to choosing among a ‘fixed menu’ of options that are already available at the moment of the dispute – that is, engage in ‘forum shopping’ (Busch

© October 2017 / GEG WP 136

2007). If an alternative RFA that is more closely aligned to their preferences exists within the regime complex, borrowers will use the threat of exclusion to bring the IMF closer to their own preferred strategy. This differs significantly from existing accounts that suggest that the power of borrowers can stem from playing 'two level games' with the Fund in pointing out their constrained domestic win set and the danger of being replaced by more 'radical' opponents. A regime complex with availability of a suitable RFA thus gives them leverage vis-à-vis the Fund even in the absence of domestic constraints. The result is that their preferences over program strategy can take precedence, often at the expense of IMF staff preferences.

Finally, there are also situations in which not only G5 interests are relatively limited, but also borrowers do not have significant disagreements over strategy with the Fund. Left to their own devices, IMF staff will seek to draw on the resources in its institutional environment to increase the chances of 'success' of financial assistance programs (see also Abbott et al. 2015). In this case, the Fund can draw on the additional money, local knowledge, and contacts with private actors that an RFA might bring to a crisis country. Both institutions are motivated by the desire to achieve their goals and seek to mutually complement their capabilities based on the logic of division of labour that allows for specialization according to areas of expertise. This differs in important ways from existing explanations, notably by suggesting that 'turf wars' between IOs are less likely to occur than previously thought and that shared ideational worldviews with local authorities are not the only possible driver for more 'generous' programs. Instead, the IMF can draw on the presence of RFAs to achieve a program that is larger in size and better targeted in terms of conditionality than it would have been able to put forward otherwise if relying solely on its constrained resources. In these cases, therefore, additional RFAs makes it possible to mitigate possible downside risks thus allowing IMF staff to insert more of its preferences in terms of program design by relaxing some of their binding constraints.

This regime complexity argument has some similarities with existing studies, but presents a distinct perspective. One of the few to focus on Latvia (and Romania) are Lutz and Kranke (2014), who also find substantive conflict between the IMF and the EU. However, from a constructivist perspective they focus on explaining the source of diverging preferences over program design, whereas the argument here pertains who and why manages to translate their preferences into program design outcomes. Another study which draws specifically on regime complexity to explain IMF (among other actors) behaviour is Henning (2017). However, his focus is the 'tangled governance' within the euro area programs, where G5 creditor interests are likely to be high due to spillover effects, in contrast to Latvia, where the Fund apparently operated without this constraint. Finally, Morse and Keohane (2014) discuss more broadly how states engage in 'contested multilateralism' and make use of a similar voice/exit language, but are mainly interested in this as a driver for long-term institutional change rather than as a short-term bargaining tactic.

1.3 Research design and case selection

In terms of research design, these claims are tested through a process-tracing analysis that focuses on the chain of causal mechanisms that link the independent variable, regime complexity, to the bargaining outcomes over program design, the dependent variable. The argument presented above pertains to influences over IMF decision-making between the stage of initial formulation of staff preferences and the actual policy outputs in terms of program design. Process tracing therefore allows assessing the validity of the argument against the empirical record, particularly when combined with counterfactual analysis that reconstructs

© October 2017 / GEG WP 136

why other options 'on the table'. Furthermore, this approach allows for adjudicating between alternative theories under conditions of equifinality and overdetermination. Relying simply on congruence analysis might lead to inaccurately attributing causal impact to variables that, in a given case, are not actually present in the causal chain (Bennett 2004; George and Bennett 2005).

To operationalize the approach, this study focuses on the influence of regime complexity on the process of IMF negotiations with borrower countries in the context of the presence of alternative RFAs. To establish the point of departure, it examines documents related to the initial positions of creditors, borrowers, and IMF staff at the outset of the negotiations and traces how they evolve and are reflected into the final program. In order to ensure that programs across countries are comparable, it considers two key elements of program design: fiscal and structural conditionality and level and frontloading of financing. These are the same dependent variables that the existing IMF literature explicitly attempts to explain. By focusing on them, the research provides a 'level playing field' for assessing the value of a regime complexity argument relative to state-centric and staff-driven accounts.

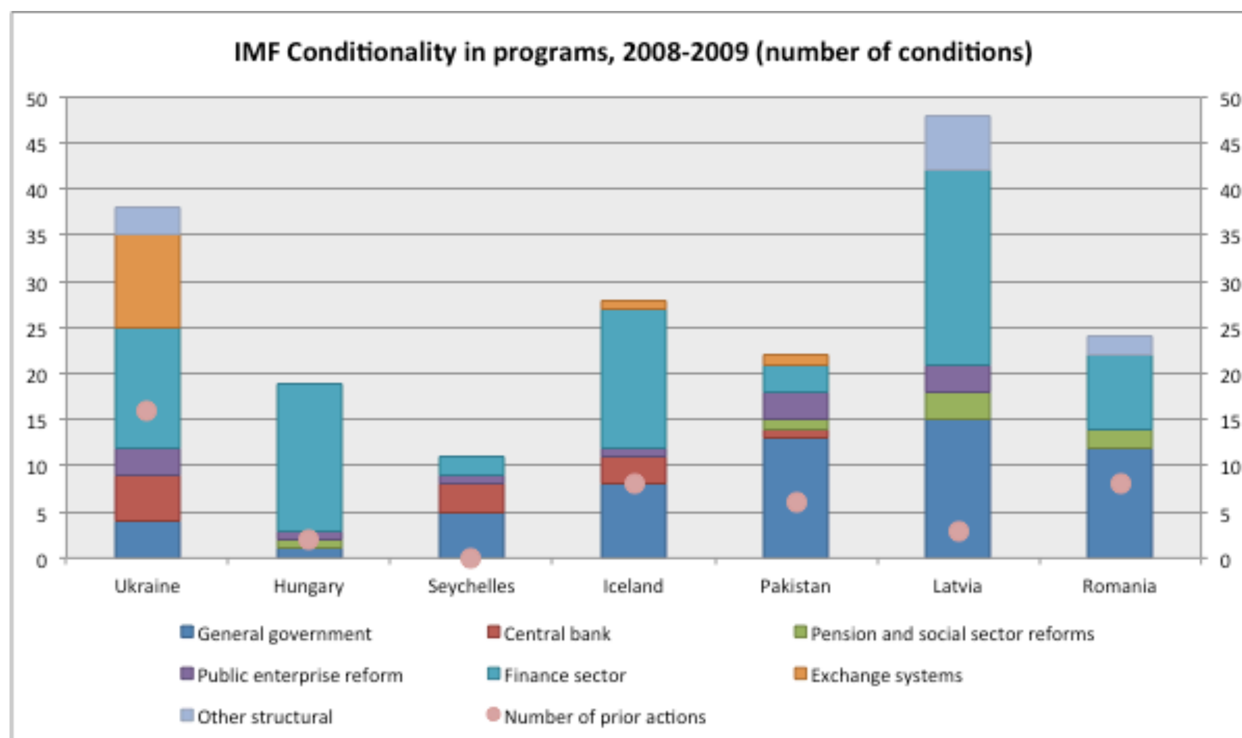
Case selection is carried out on the basis of variation in the independent variable among cases of IMF-RFA cooperation (Geddes 1990). Due to space limits, this paper focuses specifically on the scenario of borrower resistance to the IMF. This is potentially the most interesting case that arises from the implications of a regime complexity perspective as it suggests counter intuitively that actors in 'weak' positions can reduce IMF autonomy in the absence of geopolitical leverage or internal constraints. Therefore, the case should satisfy three conditions:

- Limited G5 financial and geopolitical interests
- Preference divergence between borrower and IMF staff
- Presence of an alternative RFA

Among the yet relatively limited sample of programs that satisfy the latter condition, one case in particular satisfies also the other two requirements – that of Latvia in late 2008 and early 2009. In cases in the euro area (Greece, Ireland, Portugal, Cyprus), G5 interests were intense given the threat of spillovers to the common currency. In other emerging European cases, there was not significant preference divergence (Hungary, Romania).

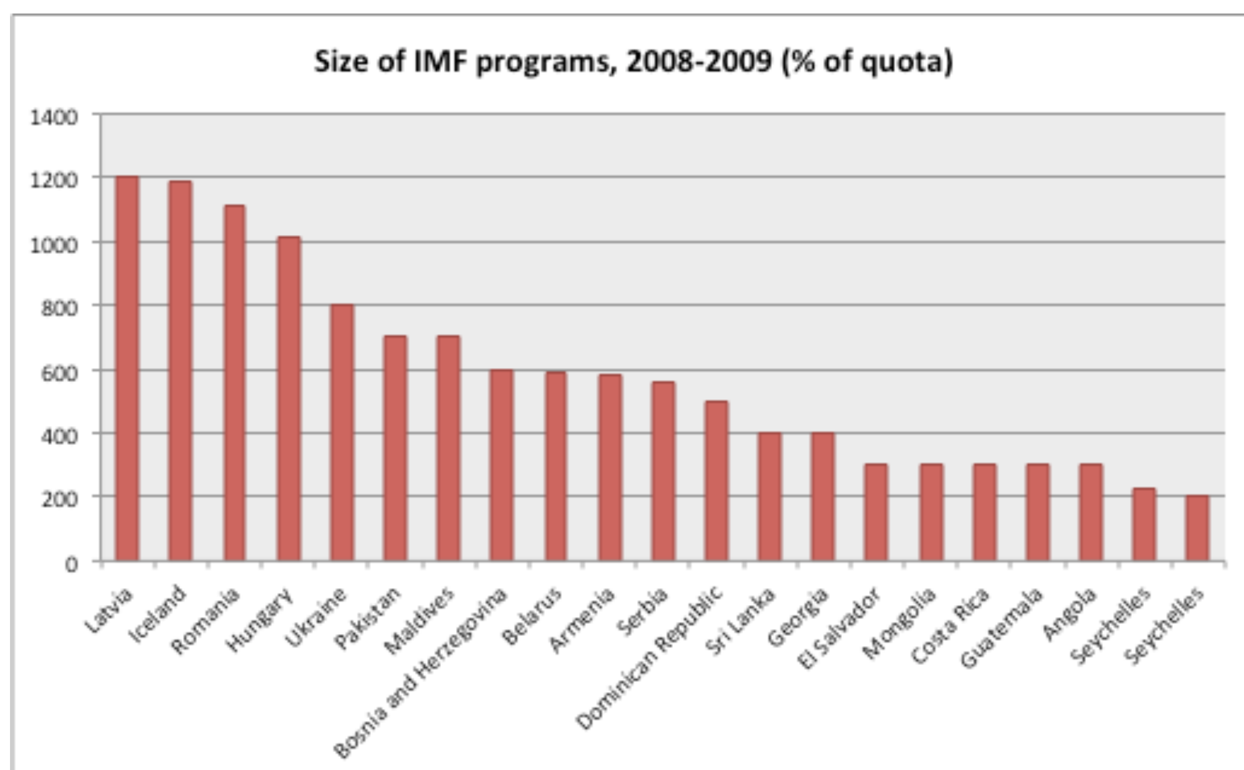
© October 2017 / GEG WP 136

In terms of program design outputs (the dependent variable), the Latvian program is remarkable for its levels of conditionality and modalities of financing. Conditionality was particularly heavy and frontloaded, reflecting the need to carry out an internal deflation without using the exchange rate as a tool for adjustment. The program envisaged measures worth 7% of GDP in 2009 alone in order to maintain a deficit of just under 5% of GDP; this was also the target for 2010, with the assumption that by the end of the program in 2011 the deficit will return under the 3% of GDP threshold set by EU Maastricht criteria (IMF 2009a, pp. 14–18). On the structural side, the program included a very high number of conditions, including many binding prior actions and a large list of general government requirements that are painful to implement, among them a 25% cut in public wages in 2009 alone (IMF 2009a, p. 18).



Latvia also received a financing package together with the EU that had three main characteristics. First, for the IMF, it was at that point the largest program it has approved *relative to country size* since at least 2002 at about 1200% of Latvia's quota. This made it the biggest of all loans approved in 2008-2009, and the 5th largest program from a total of 71 programs the Fund negotiated between 2002 and 2013 (after the four euro area programs in Greece in 2010 and 2012, Ireland, and Portugal). Second, when measured in *absolute terms*, the size of the loan itself was not large – at 1.7 bn euros, this was only the 22nd largest loan among the 71 disbursed by the Fund over the 2002-2013 period, and only the 8th largest among the 21 loans disbursed in 2008-2009. Third, the IMF contribution ultimately made up only 23% of the total IMF-EU package of 7.5 bn euros. This is in sharp contrast with Hungary and Romania, the other two EU countries to receive join financial packages, where the Fund had provided 63% and 65% of all funding. Instead, here it was the EC that provided 3.1 bn euros through its balance-of-payments facility, while a number of bilateral loans were also coordinated by Sweden, totalling another 2.7 bn euros.

© October 2017 / GEG WP 136



To test the empirical validity of such arguments, this thesis draws on a wide range of data sources. These include primary sources such as official documents, minutes of meetings, and correspondence between parties, and ex-post assessments and evaluation reports carried out by the IMF (Bakker and Klingen 2012; IMF 2009a, 2009b, 2009f, 2009f, 2013b; Independent Evaluation Office 2014). They are complemented by contemporaneous press accounts and the available secondary literature (for example, Åslund and Dombrovskis 2011; Blanchard et al. 2013; Blustein 2015; Hugh 2008). Finally, these sources are triangulated via a set of interviews[3] carried out by the researcher with officials from borrowing countries, the IMF, and other EU institutions.

[3] Interviews were carried out on a 'deep background' basis with direct participants in the negotiations from the IMF and the EC. Information that the author has not managed to triangulate via public sources has not been used in this paper.

© October 2017 / GEG WP 136

2. The IMF in Latvia (2008-2011) – A junior partner

2.1 Latvia's boom and bust: "Nothing special"

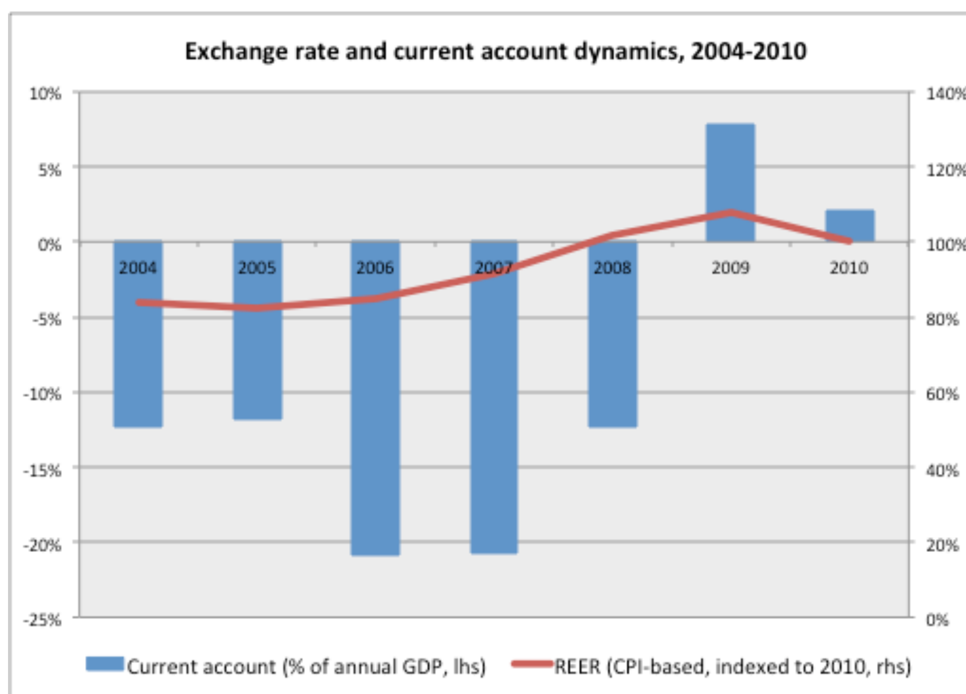
When asked about the causes of the Latvian crisis in late 2008, the then-finance minister infamously declared they were "nothing special" in a TV interview. This became a rallying cry for protestors, but many would have share his assessment of the situation as a textbook boom-and-bust cycle. Following independence in 1991, Latvia went through a painful transition experience, but GDP growth accelerated to an average of 7.5% in 2001-2004, and, after accession to the EU, reached 11% annually in 2005-2007 (Bakker and Klingen 2012, p. 113). Crucially, after floating its currency for a short period, Latvia decided to peg it to the SDR basket in 1994. This peg was then adjusted to the euro in 2005, and Latvia joined the ERM2 mechanism. This is known as the 'waiting room' for the euro: countries need to spend at least two years in the mechanism maintaining their currency stable relative to the euro (in the case of Latvia, fluctuation was limited to +/- 1%)[4]. Latvia was not an exception: Lithuania and Estonia also joined ERM2 in 2004, while Bulgaria has maintained a currency board with the euro since 2001.

However, the roar of the Baltic tigers was based on large-scale capital inflows, nowhere more so than in Latvia. Foreign banks, particularly from Sweden, bought a number of Latvian banks and drove up credit volume, which reached 50% annual growth in 2006 (IMF 2009a, p. 5). Meanwhile, domestic demand raced ahead, driven by wage increases and a striking rise in real estate investment. Therefore, in late 2006 the current account deficit peaked at an astonishing 25% of GDP (IMF 2009a, p. 5). The currency peg also influenced inflows by creating the impression that foreign currency borrowing was largely risk free, which meant that the economy was highly euroized by 2008 (Bakker and Gulde 2010). The result was a gross external debt of over 130% of GDP, of which 50% of GDP was with maturity under one year, even as public debt remained very low at just 9% of GDP (IMF 2009a, p. 6).

All this combined to set up Latvia for a hard fall. The boom started to cool down in late 2007, but the collapse of Lehman Brothers heralded the outset of a full-blown crisis. Bank deposits declined by 10% between August and November 2008, while the Bank of Latvia sold almost a quarter of its reserves in foreign currency in just four months. As Blanchard et al. summarizes, "in short, the anticipation of a large scope for catch-up growth, together with cheap external financing, led to an initially healthy boom. As time passed, the boom turned unhealthy, with overheating leading to appreciation and large current account deficits, along with lower credit quality and the balance sheet risks associated with foreign exchange borrowing" (Blanchard et al. 2013, p. 336). In this situation, and facing a fiscal deficit about to spiral out of control, the government called the IMF and the EU for help.

[4] Other requirements for euro adoption correspond to the Maastricht requirements: 1) price stability and low inflation; 2) public sector deficit under 3% of GDP; 3) public debt under 60% of GDP; 4) low long term nominal interest rates (TFEU Article 140).

© October 2017 / GEG WP 136



The exchange rate dilemma

In December 2008, it was clear that given Latvia's current account deficit of 25% of GDP the country was facing a wrenching adjustment. The crucial decision at the core of the IMF-EU financial assistance program was whether to maintain Latvia's currency peg to the euro. On the one hand, preserving the peg implied that Riga must pursue 'internal adjustment' though significant wage cuts to regain competitiveness and compensate for the sudden stop of capital inflows. On the other hand, an 'external adjustment' through the exchange rate would be quicker but will wreck the chances of joining the euro area in the near future as the country might crash out of the ERM2 mechanism.

Proponents of 'internal adjustment' had several key arguments. First and foremost, this was largely the unanimous desire of the Latvian population and policymakers, who saw the peg as contributing to rapid growth following the 1998 Russian crisis and were strongly committed to euro area entry (Rosenberg 2009). Thus, whenever doubts were expressed in public, the Prime Minister and the central bank governor were quick to slam down such talk (Åslund and Dombrovskis 2011, p. 40). Second, a staggering 70% of bank deposits and 90% of loans were in foreign currency, and private sector net foreign currency debt stood at 70% of GDP. Given the highly euroized nature of the Latvian economy devaluation would lead to "large balance sheet effects, with a risk of negative feedback loops" (IMF 2009a, p. 10). Third, contagion risks, particularly to other currency board countries (Estonia, Lithuania, and Bulgaria) was considered high, in turn potentially leading to spillovers into Western European (mainly Swedish) banks. Thus, according to proponents of the 'internal adjustment' strategy at the time, a devaluation was likely to overshoot, wreck the banking system, and cause negative spillover effects, all without improving Latvia's external competitiveness that much (Aslund 2008; Stokes 2008).

Pointing to larger experience with similar crises, supporters of devaluation highlighted that when breaking the peg appears inevitable, it is much better to do it sooner rather than later in order to pave the way for recovery. In 2008, the IMF estimated that the Latvian exchange rate was overvalued by between 16% to 37%. Given this, any 'internal adjustment' would be simply

© October 2017 / GEG WP 136

too painful as the scale of the cuts will be such that maintaining political support for this policy would be impossible (Hugh 2008; Kincaid 2016, p. 52). Many other well-known economists drew comparisons with previous disastrous attempts by the IMF to support overvalued pegs, with Krugman directly branding the country "the new Argentina", while Roubini argued that "Latvia's currency crisis is a rerun of Argentina's" (Krugman 2008; Roubini 2009). In addition, there was a danger of a deflation trap if reductions in government expenditure exacerbate the recession in the short term (Hugh 2008; Roubini 2009). Finally, while there were worries about balance sheet effects, economists argued that defaults are likely to be large scale in both cases, and therefore contagion risks would also be hard to contain whichever strategy was chosen (Hugh 2008; Krugman 2008). In short, devaluation had many high-profile supporters, who saw it as the inevitable outcome due to the political difficulty of implementing draconian austerity.

The IMF largely shared the position of proponents of devaluation, both in private and, to a large extent, in public. Sharp disagreements over the exchange rate strategy delayed negotiations over the program for almost a month and required two separate IMF missions. Once the talks got underway, "IMF staff reaffirmed its estimates of real exchange rate misalignment (about 30 percent)…any change in the peg was strongly opposed by the Latvian authorities, the EC, the ECB, and Sweden" (Kincaid 2016, p. 53). Allegedly, the IMF managing director was also very sceptical, and is quoted saying during a meeting "I don't believe for one second it will be possible to maintain the peg" (Blustein 2016, p. 68). Publicly, the IMF staff report that proposed a SBA arrangement for Latvia in December 2008 was candid: "the authorities unequivocal commitment to the exchange rate peg has determined their choice of program strategy…[there is a] possibility that recession could be protracted, perhaps more so than if an alternative strategy has been adopted" (IMF 2009a, p. 9).

IMF staff's preferences were made clear and were unusually outlined in their report to the Executive Board of the Fund. Staff backed an alternative strategy combining elements of depreciation and creative euroization. Their ideal scenario would be widening the exchange band from the current +/- 1% to +/- 15%, as allowed under ERM2, which would cause balance sheet problems initially, but will improve competitiveness more quickly, thus adjusting the current account balance. In addition, this can be combined with immediate euro adoption at this depreciated rate, limiting the risk of overshooting and providing Latvia (with public debt of barely 9% of GDP) with access to deeper capital markets (IMF 2009a, pp. 26–27). However, as the report puts it bluntly, "the EU authorities have firmly ruled out this option, given its inconsistency with the Maastricht Treaty and the precedents it would set for other potential euro area entrants" (IMF 2009a, p. 10); thus, the IMF report argues, "a technically more attractive alternative – accelerated euro adoption at a depreciated exchange rate – is not consistent with EU rules" (IMF 2009a, p. 23).

The discussion at the Executive Board largely shared staff's misgivings and worries about the program. In particular, the US representative is especially blunt: "There are no clear precedents for countries being able to achieve a real depreciation of the expected magnitude without nominal devaluation…Euroization at the lat's current value would have been the optimal outcome. Unfortunately, we must accept the political reality that European authorities are not able or willing to allow euroization to solve Latvia's currency risk" (IMF 2009b, p. 8). Such concerns are echoed by representatives from Japan, the other non-European G5 country at the Executive Board: "any economist can easily recognize the substantial risks that accompany this program in which the exchange rate is pegged at the current overvalued level" (IMF 2009b, p. 47). Latin American directors asked staff whether they have a "contingency

plan in the event that the peg needs to be abandoned in an orderly fashion (IMF 2009b, p. 24)[5]. The Chinese are less direct, but agree that "technically it might not be the best option" (IMF 2009b, p. 26).

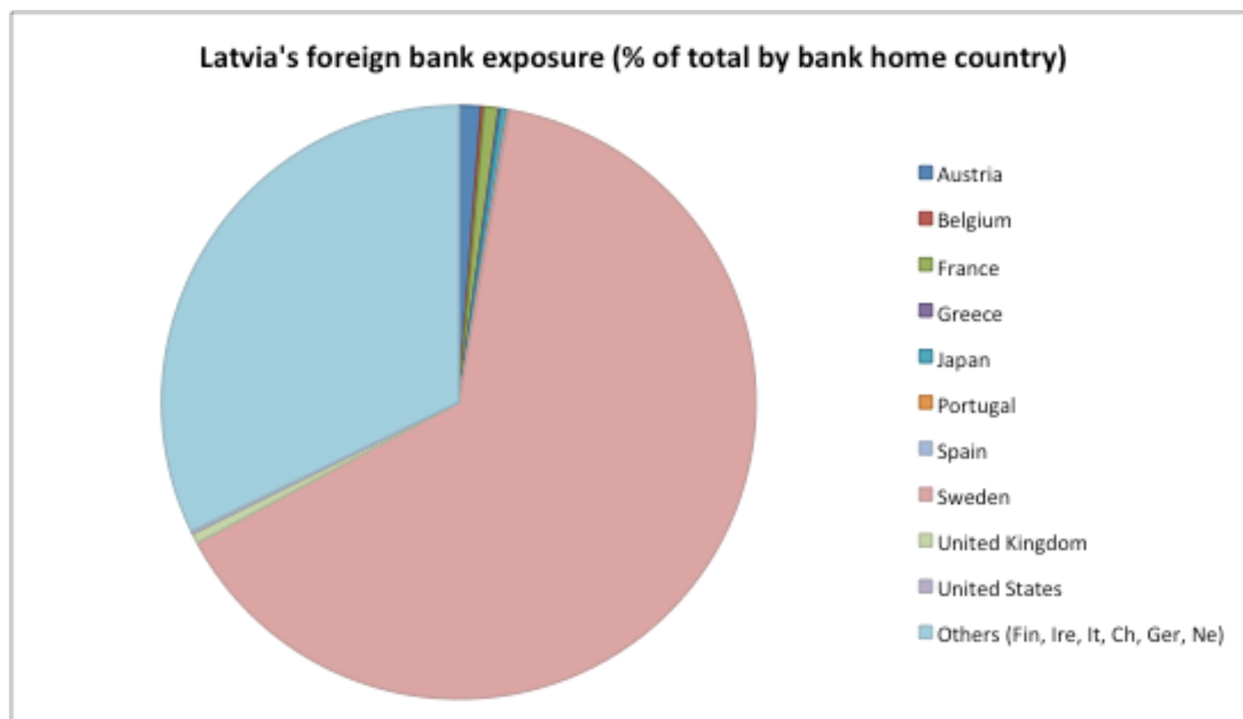
Yet, despite such widespread misgivings about maintaining Latvia's peg by IMF staff, Executive Board directors, including from non-EU G5 countries, and prominent economists, the final program was based on preserving the country's quasi currency board. As the IMF summary puts it, "the program is centered on maintaining Latvia's exchange rate peg through strong domestic policies and substantial international financial assistance" (IMF 2009a, p. 4). Therefore, "the authorities' unequivocal commitment to the exchange rate peg has determined their choice of program strategy" (IMF 2009a, p. 9).

2.2 Competing explanations

How was a tiny Baltic state with one of the smallest economies in Europe able to achieve its strategic objective in negotiations with the IMF, which was openly sceptical and advocated for an alternative strategy of devaluation? This section outlines the possible competing explanations for this outcome. It first begins by considering state-centric approaches, focused on the interests of G5 creditors or domestic political actors. Then, it proceeds to discuss ideational and bureaucratic staff-driven approaches. Finally, it presents the position of the IMF as part of a regime complex with the EU institutions.

State-centric approaches focus on the roles of creditors and/or debtors states in shaping IMF behaviour through various formal or informal channels. Creditors in particular are assumed to be motivated to act either because of their financial exposure or their geopolitical interests, which leads them to intervene directly in IMF decision-making in order to make sure loan terms correspond more directly to their interests than if left to Fund staff alone. In terms of financial exposure, Latvia, with a population of just 2.2 million and a GDP of 35 bn USD in 2008, hardly qualified as a 'systemic' threat to global financial stability that might interest the G5. Nevertheless, Swedish banks were by far the biggest foreign players in the Latvian banking system, holding assets worth 20.8 billion USD in late 2008, or around 66% of all foreign-bank held assets. Therefore, total Swedish exposure across the Baltic region accounted for 12.8% of Swedish GDP, enough to create substantial worries at the Riksbank. Given this, unsurprisingly, the Swedish advocated for maintaining the currency board and multilateral financial assistance (as opposed to bilateral loans from Sweden). However, the Swedish quota at the IMF was at just below 1% of voting rights, far below that of the G5 countries usually considered as having enough sway over the Executive Board in order to shift IMF decisions in their favour. This pattern of exposure therefore indicates a large role for Sweden and its Executive Director in trying to 'nudge' the Fund in its preferred direction, but does not suggest that Sweden will have the necessary formal or informal means of substantively altering the Fund program.

[5] Nogueira Batista, the Brazilian representative, however, is characteristically outspoken: "if Latvia's currency is not "fundamentally misaligned", it becomes very hard to see to which other currency the label would apply", pointing out the "apparent contradiction" in staff proposing to maintain the currency board while estimating the currency is overvalued by about 30% (IMF 2009b, p. 37).



A more important argument in the case of Latvia would appear to be geopolitical interests. Tensions between the Baltics and Russia are well known, and ethnic Russians account for just over a quarter of Latvia's population. Previous research on the region has also argued that international economic policies were at least partly motivated by the desire to reduce dependence on Russia (Abdelal 2001). Therefore, one would expect that if large shareholders prioritized supporting Latvia for geopolitical reasons, this would have led them to relax the conditions and to increase the funding offered to Latvia. Moreover, such worries should be most salient for EU countries as they are closest to the area of potential security concern. Finally, it is worth noting that in 2008 Latvia, along with the rest of the Baltics, was already a NATO (since 2004) and EU member (since 2007), which meant they were largely institutionally embedded in the European security architecture.

Another state-centric approach focuses on how domestic politics can influence IMF behaviour. This appears initially plausible in Latvia given a very fragmented political scene. The government that negotiated with the IMF at the outset of the crisis in late 2008 was composed of four parties, and its successor from early 2009 consisted of five different parties. Moreover, regular elections were scheduled for late 2010, well within the timeframe of the IMF program, raising further political risks. In this situation, the Fund can be constrained in its ability to threaten to withdraw support if it fears this can bring down the government and usher in a more antagonistic administration. If these mechanisms were in action, one would expect to observe Latvian political leaders engaging in 'two-level games' and consistently drawing Fund's attention to its political constraints and to the lower likelihood of program success if the government changes.

Staff-driven explanations prioritize instead the role of staff in shaping IMF programs either for ideational or bureaucratic reasons. On the ideational side, such approaches focus on the potential alignment of economic background and ways of 'diagnosing the problems' between IMF staff and country policymakers. The closer they are normatively and especially in terms of economic ideas, the less worried the IMF will be about 'slippage', thus taking a more 'accommodating' stance. In Latvia, this certainly has some purchase. The prime minister in late 2008, Ivars Godmanis, was also head of government between 1990 and 1993, a period during which Latvia obtained three IMF loans. He was replaced in March 2009 by Valdis Dombrovskis, a former finance minister between 2002 and 2004 when he "became known as a classical liberal and fiscally conservative politician" according to market participants (Christensen 2009). Finally, the governor of the Bank of Latvia and a key actor in the negotiations was Ilmars Rimsevics. He studied in the United States in 1988-1989 and obtained his MBA from Clarkson University in 1992, which should also reduce the 'ideational distance' between him and IMF officials. This all suggests that the IMF should find a receptive audience, enhancing its influence. Yet, in the case of Latvia there were sharp disagreements over program strategy between Fund staff and local authorities.

The IMF-EU regime complex and Latvia

Before the global financial crisis erupted, the IMF was facing a challenge to its own relevance within the global financial safety net. With less financial crisis and more self-insurance through reserves, warnings of impending irrelevance abounded. As the Economist (2006) put it, there was "Not Even a Cat to Rescue", leading it to pose the question, "if the IMF were to wither away – its money untapped, its advice unheeded – should anyone care?" In turn, this had consequences for its financial situation, with its resources sitting idle and with only one major loan being repaid in that period from an earlier program in Turkey. Questions began to appear about its income stream amid pressure by big creditors to downsize (IMF 2007). In 2007, the Managing Director announced the need for $100 million in savings over three years, which led to the exodus of 500 economists, or more than 20% of all staff, in just 12 months in 2008-2009. (Independent Evaluation Office 2014:31).

The main support from the EU came in the form of balance-of-payments assistance through a so-called medium-term financial assistance facility. This built on an earlier facility for EU countries, last used in 1993 for a loan to Italy (Darvas 2009:3). In 2002, it was redesigned specifically as a balance-of-payments facility for non-euro EU members with a ceiling of 12 billion euros. The new legal basis also stipulated that "where a Member State which has not adopted the euro proposes to call upon sources of financing outside the Community which are subject to economic policy conditions, it shall first consult the Commission and the other Member States in order to examine, among other things, the possibilities available under the Community medium-term financial assistance facility" (Council of the European Union 2002, Art. 2). This facility represented one of the few RFAs that predated the crisis, although by late 2009 it would more than quadruple in terms of lending capacity.

The pressure of providing rapid crisis lending to EU member states thus joined at the hip two regimes: global financial governance and the European economic framework. Despite some questions about IMF surveillance and euro area representation, the two regimes had existed so far largely in parallel and without significant overlap (Pisani-Ferry, et al. 2013, Broome 2013). In late 2008, the period of relative inactivity for both the IMF and the European BoP facility came to an end. In November 2008 alone, the Fund approved five new lending

programs, three of which were significant because of their size in absolute terms as well as percentage of country's quotas – Ukraine, Hungary, and Pakistan. Meanwhile, the emerging European RFA negotiated loans in November and December 2008 alongside the IMF in Hungary and Latvia.

Country	Approval date	Amount (bn of USD)	% of IMF quota	% of total loan for immediate release	Co-lending with EU BoP facility?
Georgia	Sept 2008	0.75	317%	34%	No
Ukraine	Nov 2008	16.4	802 %	64 %	No
Hungary	Nov 2008	15.7	1015 %	72 %	Yes (8.4 bn USD)
Seychelles	Nov 2008	0.03	200 %	45 %	No
Iceland	Nov 2008	2.1	1190 %	40 %	No
Pakistan	Nov 2008	7.6	700 %	47 %	No
Latvia	Dec 2008	2.4	1200 %	47 %	Yes (4.3 bn USD)

Source: IMF MONA database, Woods (2010)

It is in this context that the IMF and the EU entered into talks over the Latvian program. By that point, the Fund had dramatically expanded its loan portfolio, which had reduced its lending capacity, but it stood at healthy 150.2 bn USD in December 2008, compared to a small 2.4 bn USD Latvian program (IMF 2008)[6]. Moreover, the program represented just 5% of pre-program IMF total loan portfolio (as opposed to 56% for Hungary for example), which meant it only had a "modest impact on the Fund's liquidity position" (IMF 2008, p. 8). Meanwhile, on the EU side, as a non-euro EU member state, Latvia had access to the same facility that Hungary tapped several weeks earlier. Initially set at 12 bn euros, it has sufficiently been depleted by the Hungarian program that the European Council felt the need to raise the ceiling to 25 bn euros on 2 December with an eye on increased demand for external financing in the region (European Commission 2008). In addition, due to the ERM2 membership of Latvia, ECB representatives also joined the EC directly in the negotiations.

A regime complexity perspective suggests that borrower governments, facing a conflict with the IMF, would actively used the threat of turning towards an RFA in order to bring the Fund closer to its own preferences. In the case of Latvia, IMF staff expressed relatively clear preferences for following a devaluation strategy both in public and private. The source of these preferences is beyond the scope of the paper, but in this case appears to be the overall negative experience of the Fund in supporting what it considers overvalued pegs, especially in Argentina (Blustein 2006). However, equally clearly, local authorities were overwhelmingly

[6] In addition, the Fund's resources were tripled at the G20 London meeting on 2 April 2009 with a half-trillion boost to its coffers through emergency loans (G20 2009). This led Strauss-Kahn to proclaim that "The IMF is back. Today you get the proof" (IMF 2009d).

unanimous in their support for maintaining the peg, for a variety of reasons. In this case, borrowers will make use of the available 'fixed' options in the regime complex and move towards channelling assistance through an alternative RFA, which is closer to their positions. In the Latvian case, there is indeed such an RFA present – namely, the EU balance-of-payments facility. Therefore, in short, this perspective would expect to see local authorities consistently threatening to turn towards EU institutions whenever conflicts with the IMF come to a head, which ultimately leads the final program design to reflect their preferences.

2.3 The design of the IMF-EU financial assistance program

This section traces in details specifically how the exchange rate discussion translated into the observed conditionality and financing arrangements. It also traces how those evolved over time, paying specific attention to initial discussions over the program in December 2008 and the large and visible disagreements between the IMF and the EU in June 2009. Throughout, it seeks to assess the explanatory power of state-centric, staff-driven, and regime complexity approaches.

Fiscal and structural conditionality

In order to maintain the peg, the IMF judged that "domestic policies need to be radically strengthened" (IMF 2008:10). In terms of fiscal adjustment, this meant substantial tightening to limit financing needs and drive real depreciation. Initially, the program projected a 5% fall in GDP for 2009 as domestic demand, investment, and trade all decline. This in turn would have pushed the deficit to 12% of GDP. To avoid that, the parliament passed a new budget on 11 December with 7% of GDP worth of fiscal measures to contain the deficit below 5% of GDP. These included expenditure cuts worth 4.6% of GDP in 2009 alone, but protected some social spending and capital outlays. The IMF, alongside the World Bank, built in an increase of social spending by 1.5% of GDP in 2009, something rarely observed in previous Fund programs (IMF 2009a, p. 30). Nevertheless, financial tightening meant cuts in wages and bonuses in the public sector of some 25% in 2009, with the hope that this would also induce reductions in private wages, and thus increase competitiveness (IMF 2009a). The size of this adjustment was massive, but also not unprecedented according to the IMF: "Latvia's fiscal consolidation plans would fall among the largest consolidation episodes in comparable countries in the past two decades" (IMF 2009a, p. 29).

However, by mid-March 2009 the fiscal and structural adjustment policies seemed to be all coming apart as the downturn proved far sharper than anticipated – instead of the projected 5% fall, output was collapsing by staggering 18%. As the IMF puts it, "this decline is among the most severe in the world, and the cumulative output decline exceeds that of the Asian countries in 1998-99." As a result, unemployment doubled from 7% to 14%, and, while the current account actually snapped into surplus, a yawning fiscal deficit of 18% of GDP in 2009 and 24% of GDP in 2010 loomed (IMF 2009c, p. 23). Meanwhile, the thorny question of the exchange rate was not going away. Instead, the simultaneous collapse among Latvia's international partners meant its "real effective exchange rate has appreciated by 3% since the start of the program" despite the goal of achieving a significant real depreciation, while lat deposits fell by 15% in the first half of 2009 (IMF 2009c, pp. 5, 10). These shocks had political repercussions: a first IMF review was scrapped as the government collapsed in February 2009, following particularly massive anti-austerity protests on 13 January 2009. A new coalition

© October 2017 / GEG WP 136

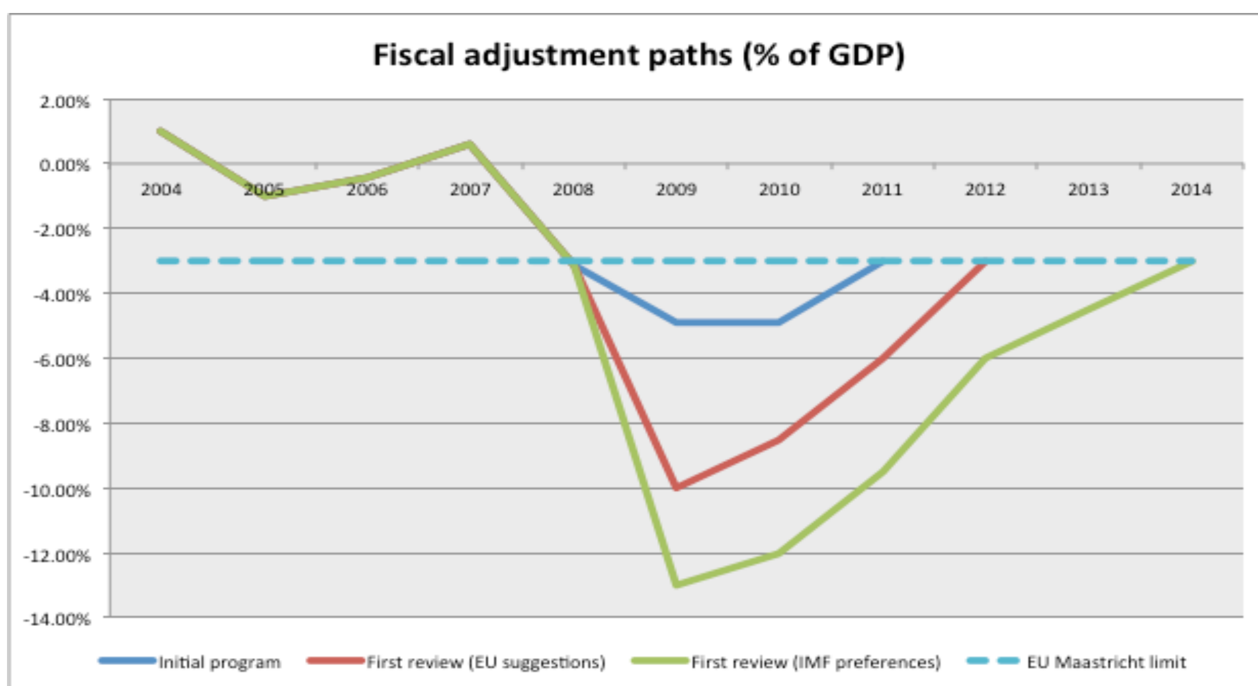
government between five parties, led by Valdis Dombrovskis, was formed and promised the Fund a supplementary budget, which was to be passed in June 2009, following European and municipal elections.

By that point, the program appeared significantly off-track. According to the IMF report, the government missed the fiscal deficit it promised in December 2008 by 1% of GDP as "fiscal measures were only partly implemented…only around one third of the 4.5% of GDP in expenditure cuts [originally promised] appear to have been implemented…indicative wage-bill targets for end-December, end-March, and end-June were also missed…the structural performance criterion on submitting a fully-fledged supplementary budget to parliament by end-March was not met" (IMF 2009c, pp. 10, 14). As a result, staff considered reopening the exchange rate issue: "amid all these uncertainties – the deeper downturn, loss of confidence in the lat, growing fiscal deficit – Latvia's exchange rate peg has faced waves of heavy pressure" (IMF 2009c, p. 16). In this climate, the main bone of contention was the new supplementary budget, originally promised for March 2009 and eventually delivered in June 2009.

The clash over the supplementary budget mirrored to a large extent previous conflicts between the IMF on one hand and the Latvians and the Europeans on the other. The new government proposed further 4% of GDP of fiscal measures, which were extremely painful and included closing down 35 out of 59 hospitals and 100 schools in the country, while laying off 23.000 civil servants, 29% of the total. Ultimately, the government passed these measures on 16 June, aiming to keep the deficit under 10% of GDP (Åslund and Dombrovskis 2011, pp. 73–74, 83–84). The Fund, however, considered that a much larger deficit was still likely. Yet, staff's main complaint about the budget was that "across-the-board cuts could impair the quality of public services", some cuts (especially in pensions) are unlikely to be sustained, and the burden falls disproportionately on the poor (IMF 2009c, pp. 24, 46). The IMF found itself in an unfamiliar role: "on balance staff argued for allowing a slightly higher budget deficit in 2009 to protect basic services and to rebalance the burden of adjustment", including a 1% of GDP for social safety net measures (IMF 2009c, p. 24).

The Fund's other disagreement was with the EU. The EC was pushing for a quicker fiscal adjustment that results in a deficit of under 3% in accordance with Maastricht criteria (a requirement for euro adoption) by 2012, which staff dubbed 'rapid adjustment'. Under the IMF program, the deficit path would be significantly different: allowing for 13% of GDP deficit in 2009, gradually reduced to 12% of GDP in 2010 (vs. EC's insistence of 8.5%), reaching the 3% threshold only in 2014 (IMF 2009c, p. 26). Uncharacteristically, staff was blunt on these projections, including a detailed comparison between the EC 'rapid adjustment' and the Fund's 'program adjustment' in their report (IMF 2009c, pp. 26–30). The staff appraisal of the first review is especially downbeat, concluding that the "outlook has become more uncertain, with downside risks" (IMF 2009c, pp. 40–41).

© October 2017 / GEG WP 136



There was certainly no love lost between Latvian authorities and IMF staff either. As the then-prime minister recounts, Fund staff pushed for a plan B in which Latvia prepares for devaluation, but the government refused. The general impression in Riga was that "the IMF wanted to force Latvia to devalue" by not releasing its second tranche while the country was running out of international reserves. The prime minister felt that "at the IMF headquarters in Washington…the Latvian SBA was perceived as unsustainable and thus a mistake. Therefore, it was considered better to let Latvia fail early on before the IMF pumped it up with debt" (Åslund and Dombrovskis 2011, pp. 85–86). In this context, he assessed that the EU's decision to complete the first review on its own and disburse before the IMF in July 2009 was crucial and without the involvement of the EC, the IMF would have insisted on devaluation and Latvia might not have been in a position to resist such pressure.

Tellingly, Latvia conversely had to back down whenever the EC and the IMF were in agreement, even if it went against its wishes. In October 2009, the EC and the IMF asked for additional fiscal consolidation worth 4.2% of GDP. This was more than the government thought necessary, but, according to the Latvian prime minister, "given the asymmetric bargaining power, the government eventually had to do more or less what its creditors demanded" (Åslund and Dombrovskis 2011, p. 88). As a sympathetic external observer puts it, after Dombrovskis refused further measures, "everybody came down like a ton of bricks on him and he had to give in" (Aslund 2009). This underlines that borrower governments pick from a 'fixed menu' of existing institutions and whenever alternative RFAs are not ready to back them against the IMF they have little choice but to back down.

In sum, conflicts over conditionality were highly visible in the case of Latvia. Most clearly, Fund staff clashed with the Latvian authorities and EU institutions over the supplementary budget in mid-2009, when the program appeared considerably off-track and the IMF advocated a more gradual adjustment path. The final decision – to pursue 'rapid adjustment' – was taken by Latvian authorities with the backing of EU institutions against the preferences of Fund staff. The prime minister at the time assessed that without the presence of the alternative RFA,

© October 2017 / GEG WP 136

Latvia would not have been able to resist IMF pressure – a reasonable counterfactual given Fund's experience in previous programs with small borrowers outside regime complexes. At the same time, conflicts suggest that shared ideational background was not enough to make Latvian policymakers receptive to IMF advice, while there is little evidence of any involvement by creditor governments apart from Sweden over the design of adjustment policies.

Financing and burden-sharing

The Fund's acquiescence on the exchange rate question was reflected in the way the Latvia program was financed. The initial program involved funding of 1.7 billion euros from the IMF, which corresponded to about 1200% of Latvia's quota. This was largely in line with other non-euro EU members, but nevertheless meant that "Latvia's proposed access would be high and front-loaded…peak exposure to Latvia would exceed all exceptional access cases in recent years aside from Turkey" (IMF 2008, p. 5). The IMF loan was heavily frontloaded, with 422% of quota available upon approval, or 600 mn euros (2.8% of GDP), and another 400 mn euros to be disbursed by May 2009. This was very similar to Hungary and Iceland, but less than in other non-EU cases, such as Pakistan and Ukraine.

One area of controversy were, as usual, debt projections. The large scale of the program at 1200% triggered exceptional access criteria, and while public debt remained limited at 10.2% of GDP, serious concerns were raised over external private debt, with gross foreign debt in 2008 standing at 130% of GDP[7]. Fund staff was especially worried about the short-term nature of much of these liabilities, with around 40% of total external debt (or 57% of GDP) representing lending by unaffiliated foreign banks to Latvian banks and non-resident deposits. Meanwhile, over 90% of corporate loans were denominated in foreign currency, mostly euros. Nevertheless, IMF staff judged the debt position to be sustainable (IMF 2009a, pp. 31–33).

The combination of maintaining the exchange rate and the level of external debt raised plenty of eyebrows on the Executive Board of the IMF. The US representative declared that "this Stand-By Arrangement is perhaps the riskiest use of exceptional access that the Fund has considered in many years" (IMF 2009:8). Other non-European directors looking at such numbers argue they present "quite a depressing picture underlining significant financial risks to the Fund", but such "risks are mitigated by the relatively smaller loan amount" (IMF 2009b, pp. 29, 31). The Russian representative equally highlights "it is not clear to us how the requirement of the exceptional access framework on the sustainable debt position is taken into account (IMF 2009b, p. 45). Japan, the other non-EU G5 member on the board with the United States, is equally critical of the program, expressing worries that "since the arrangement of supporting an overvalued peg deviates from standard economic theory, there are "reputation risks", as well as financial risks, in that the Fund might be criticized as having approved an arrangement that is apparently unsustainable" (IMF 2009b, p. 48).

However, even such large amounts of IMF money were grossly insufficient for Latvia. The Fund had estimated a net financing gap of 7.5 billion euros until 2011 that needed to be filled if the exchange rate was to be maintained (IMF 2009a, p. 19). The IMF commitment of 1.7 bn euros was just 22% of the total financing needs, reflecting the sheer scale of funding required

[7] This was partly offset by foreign assets worth some 60% of GDP. However, there were significant maturity mismatches, with many external assets representing long-term investments with uncertain valuations in a financial crisis, while they were being mostly financed by non-resident deposits (IMF 2009a, p. 33)

to keep the peg, even with draconian spending cuts. Meanwhile, the EC was also offering a strongly frontloaded program, with 2.2 bn euros to be disbursed just by mid-2009; in turn, this reduced the reliance on Fund resources even in that crucial early stage. The European Council doubled its balance of payment facility in early December to 25 bn euros to allow for substantial funding for Latvia, eventually agreeing a program worth 3.1 bn euros, or almost twice as much as the IMF. This was a reversal of burden-sharing from Hungary barely a month earlier, where the Fund was clearly in the lead. For the first time in its history the Fund had thus accepted a junior financing role.

Additionally, the Latvia program was unusually topped up with large scale bilateral loans and lending from other institutions worth some 2.2 bn euros, or almost 30% of the program. This was mainly Swedish funds, but it also included some other Nordic, Baltic, and Central and Eastern European countries reflecting spillover concerns (Forsberg 2009). Meanwhile, the Swedish and Danish central banks provided a bridge swap line of 500 mn euros that 'tied Latvia up' until the IMF money arrived. Finally, the World Bank provided 400 mn euros to support the social safety net, with the EBRD providing 100 mn euros for bank recapitalization (Åslund and Dombrovskis 2011, pp. 45–47). According to some, "an important precedent was thus set: the Fund might take a subordinate position in a program in Europe, and European policy makers could prevail over the best technocratic judgment of the Fund's management and staff if Europe was putting up the majority of the funding" (Blustein 2016, p. 69).

This precedent came back to haunt the IMF as early as mid-2009. By February 2009, the program was off-track, the collapse was much deeper than projected, and the government had resigned. Following negotiations, the next IMF disbursement, which was linked to submission of a supplementary budget, was put off until after the municipal and EU elections in June 2009. The budget was eventually passed on 16 June, but the IMF had significant concerns, as outlined above, and was not ready to disburse until they were addressed. The EC and the Nordics, however, were more concerned about the mounting pressure on the exchange peg, "seeing the IMF as too willing to risk a currency crisis to obtain improvements in fiscal policy" (Kincaid 2016, p. 55). The IMF position was backed at that point by numerous prominent economists with former Fund experience such as Roubini and Rogoff in the international press (Magnusson 2009; Roubini 2009). However, the Europeans moved quickly as the European Council expressed support for the next EC disbursement on 19 June and took the final decision formally on 2 July (European Commission 2009a, 2009b). The Fund, feeling it had little choice but to follow suit, completed its review on 27 July and disbursed its tranche on 27 August (IMF 2009e, 2009f).

These developments had significant implications for Latvia, the Fund, and the future relations within the regime complex. First, the EC disbursement largely put an end to devaluation speculation and was seen as crucial in allowing Latvia to complete the rest of the program. Meanwhile, the IMF was seen as being 'wrong' about the difficulties of internal adjustment under fixed exchange rate, ending up with an "egg on its face" (Blustein 2016, p. 71). Second, as an internal evaluation puts it, "the Fund mission was surprised that the EC would disburse without the IMF" (Kincaid 2016, p. 55). Indeed, the same assessment says that "the EC by deciding to go it alone without the IMF displayed its independence and confidence" leading to a "perception of the IMF as a junior partner" (Kincaid 2016, p. 56). Finally, this marked the moment in which "the EU no longer accepted the IMF's leadership", with senior EC officials such as the Commissioner for Economic and Monetary Affairs, Joaquin Almunia, becoming more and more active in contrast to IMF management (Åslund and Dombrovskis 2011, p. 86).

© October 2017 / GEG WP 136

The decision of the Europeans to disburse before the IMF is illustrative of the dynamics of a regime complex. For the Latvians, the presence of two financing options was clearly crucial in allowing them to eventually pursue their preferred strategy of maintaining the peg; if the tiny Baltic state was negotiating by itself with the IMF, this would have been very likely been impossible. As the Latvian Prime Minister at that point puts it, “without the EC checking the IMF, the international stabilization program could easily have fallen apart in June 2009. For Latvia, it has been an advantage to have both parties at the table rather than one” (Åslund and Dombrovskis 2011, p. 87). Meanwhile, it is clear that disbursement by the EU was designed explicitly to overrule the IMF and promote their key preference, which was to avoid regional contagion and spillover while protecting the rules for euro accession. The Swedish Prime Minister thus revealingly said that “We think that a clear signal of support from the EU would help them to achieve support from the IMF” (Hugh 2009). As for the Fund, this was a painful climb down, but it could do little about it. The EU’s July tranche was worth 1.2 bn euros, or over 70% of the *total* IMF program financing, limiting the financial need for the Fund to be involved; for comparison, the IMF August tranche was worth just 0.19 bn euros. The IMF could have broken relations at this stage, but instead yielded to the competitive logic of regime complexes.

In short, the conflicts over the peg were also reflected in the financing arrangements, which represent the ‘skin in the game’ for institutions like the IMF and the EU. The IMF first accepted a junior financing role in December 2008, and then was forced to disburse against its preferences in June 2009 following the unilateral decision by the EC to complete its own review, which made the threat of exclusion palpable. A plausible counterfactual in the absence of a regime complex is that Latvia would have been forced to change its policies, especially likely in mid-2009, in order to obtain Fund financing. Meanwhile, the Swedish government played an important function in the process, and it managed to achieve its goal of maintaining the peg, but had to put in its own bilateral loans that ‘topped up’ the multilateral EU and IMF lending, thus opening itself to losses if the program was derailed. However, no other creditor government appears to play a significant role and, crucially, local policymakers relied on the threat to circumvent the Fund through an alternative RFA, rather than on ‘two level games’ based on domestic political cleavages.

© October 2017 / GEG WP 136

Conclusion and implications

Latvia is an intriguing case to consider as it confounds many of the expectations of existing theories of IMF behaviour. In terms of state-centric approaches, its economy is not of systemic exposure and its financial exposure to G5 banks is non-existent, creating limited financial incentives for powerful states to intervene. The exception is Sweden, which strongly backed maintaining the peg to avoid losses, but however still had to agree to 'top-up' bilateral funding[8]. Meanwhile, an explanation focused on geopolitical exposure still begs the question why the European partners, which are most exposed to security concerns, insisted on *more* painful measures and repeatedly refused to relax their rules. Furthermore, despite a largely fragmented political system, domestic political elites were largely united in defending the currency peg and did not opt for 'two-level games', nor did the Fund appear to favor particular 'sympathetic interlocutors' within the government. In terms of staff-driven theories, domestic elites, particularly the new prime minister that took over in March 2009 and the central bank governor, had some ideological affinity with neoliberal ideas, but clashed bitterly with IMF staff. Thus, in the absence of G5 interests and 'two-level' games, and in the presence of ideologically close partners, existing theories would likely expect an *increase* in IMF influence over program terms.

What may therefore account for the observed *decrease* in IMF influence in a case where many existing theories would suggest the Fund should have been successful in pursuing its preferences? At crucial points in the negotiations the Latvian authorities were able to use the presence of an alternative RFA in order to restrict Fund room of manoeuvre by raising the prospect of excluding the IMF. The conflicts were most clearly visible in late 2008 when the program was being negotiated, and in June 2009, the time of the first review, when the program appeared significantly off-track. In both instances, the Latvian government turned strategically towards the EU in order to receive financial aid on conditions that corresponded closer to its preferences, which relegated the IMF to a 'junior partner' role. The Latvian authorities highlight themselves somewhat diplomatically that in these disagreements it is "difficult to judge to what extent the fact that regional partners with their financing were involved" mattered in making the Fund "sufficiently flexible to accommodate the authorities' strategy" (IMF 2013b, p. 39).

Therefore, it is a plausible counterfactual, as suggested by the process tracing analysis in this case and by existing theories that draw on previous experiences and predict *increased* Fund influence, that in a similar situation of severe financial crisis a small non-systemic economy would not have been previously able to withstand strong IMF demands in the bargaining process. However, in the presence of a regime complex, Latvian authorities successfully resisted such pressure by making the threat of drawing on an alternative financing institution and acting on it. Therefore, it appears that on the exchange rate question the IMF was forced to go against its own better judgment not because of pressure by G5 shareholders, domestic political considerations, ideological conflict, or bureaucratic considerations, but rather because the local authorities could rely on an alternative RFA which shared many of their preferences.

The Latvian case thus provides empirical support to the regime complexity approach to IMF behaviour presented in this paper. However, it is also important not to overstate the extent of the argument. First, the study does not seek to explain the origin of preferences among IMF staff, creditors, or borrowers, which are taken as a starting point; instead, it seeks to account

[8] As well as a soft version of bail-in of its banks in the context of the Vienna Initiative.

© October 2017 / GEG WP 136

for the interplay between those different actors during the course of program negotiations. Second, it does not seek to provide an assessment of the effects of regime complexity on economic outcomes. Therefore, whereas it focuses on explaining variance in IMF autonomy, it is not tackling the question of whether the involvement of several institutions is 'better' or 'worse' for macroeconomic and other outcomes. In particular, it is possible that the competition between institutions helped Latvia realize the 'right' set of measures and prevented an 'overconfident' IMF from forcing through the 'wrong' policies. Third, it does not seek to explain the wider set of choices that states make within a regime complex. Instead, it is explicitly focused on the responses of IOs to situations of overlapping institutions (Betts 2013). Beyond these considerations there is clear scope in the future for improving external validity given the temporal and geographical clustering of observations so far in Europe between 2008 and 2013. A more ambitious approach would seek variance among IOs and issue areas affects regime complexity dynamics.

Yet, within these specific bounds, the findings still have a number of important implications. The IMF is slowly beginning to adjust to a more crowded institutional environment through changes in its lending policies (IMF 2015, 2017a) .However at this stage it is mostly signaling that it is ready to play ‘second fiddle’ in programs it might have significant doubts about as long as RFAs are the ones that are providing the money – reducing the short-term credit risk, but increasing the long-run reputation risk to the Fund. There are real potential gains in cooperating with RFAs for the IMF, including better knowledge of local conditions and larger financial resources. Such cooperation should be structured ex-ante and contain in-built conflict mechanisms, but this might go against the wishes of both powerful creditors and potential borrowers, which might prefer the current state of ‘strategic ambiguity’ that allows them to arbitrate conflicts (Henning 2017). This might spell a transformation of the global financial safety net, with the Fund retreating from crisis lending and towards coordination, surveillance, and knowledge roles.

© October 2017 / GEG WP 136

References

Abbott, K. W., Genschel, P., Snidal, D., & Zangl, B. (2015). *International organizations as orchestrators*. Cambridge: Cambridge University Press.

Abdelal, R. (2001). *National purpose in the world economy : post-Soviet states in comparative perspective*. Ithaca ; London: Cornell University Press.

Aggarwal, V. K. (1998). *Institutional Designs for a Complex World: Bargaining, Linkages, and Nesting*. Cornell University Press.

Alter, K. J., & Meunier, S. (2009). The Politics of International Regime Complexity. *Perspectives on politics*, *7*, 13–24.

Aslund, A. (2008, December 9). Why Latvia Should Not Devalue. *PIIE*. https://piie.com/blogs/realtime-economic-issues-watch/why-latvia-should-not-devalue. Accessed 28 August 2017

Aslund, A. (2009, October 29). Latvia, Lithuania, and the IMF. *Peterson Institute for International Economics*. https://piie.com/blogs/realtime-economic-issues-watch/latvia-lithuania-and-imf. Accessed 28 August 2017

Åslund, A., & Dombrovskis, V. (2011). *How Latvia came through the financial crisis*. Washington, DC: Peterson Institute for International Economics.

Bakker, B., & Gulde, A.-M. (2010). The Credit Boom in the EU New Member States: Bad Luck or Bad Policies?

Bakker, B., & Klingen, C. (2012). *How Emerging Europe Came Through the 2008/09 Crisis: An Account by the Staff of the IMF's European Department*. Washington, D.C.: IMF.

Barnett, M. N., & Finnemore, M. (2004). *Rules for the World: International Organizations in Global Politics*. Ithaca, NY: Cornell University Press.

Bennett, A. (2004). Case Study Methods - Design, Use, and Comparative Advantage. In D. Sprinz & Y. Wolinsky-Nahmias (Eds.), *Models, Numbers, and Cases: Methods for Studying INternaitonal Relations* (pp. 19–55). Ann Arbor: University of Michigan Press.

Betts, A. (2013). Regime Complexity and International Organizations: UNHCR as a Challenged Institution. *Global governance*, *19*, 69–81. doi:doi:10.5555/1075-2846-19.1.69

Blanchard, O., Griffiths, M., & Gruss, B. (2013). Boom, Bust, Recovery: Forensics of the Latvia Crisis, 64.

Blustein, P. (2006). *And the money kept rolling in (and out): Wall Street, the IMF, and the bankrupting of Argentina*. New York; London: PublicAffairs ; Perseus Running [distributor. http://www.books24x7.com/marc.asp?bookid=17544. Accessed 28 August 2017

Blustein, P. (2015). Over Their Heads: The IMF and the Prelude to the Euro-zone Crisis.

Blustein, P. (2016). *Laid low : inside the crisis that overwhelmed Europe and the IMF*. Waterloo, Otario: Centre for International Governance Innovation.

Broz, J. L., & Hawes, M. B. (2006). Congressional politics of financing the International Monetary Fund. *International Organization*, *60*, 367–399. doi:10.1017/S0020818306060115

Busch, M. L. (2007). Overlapping institutions, forum shopping, and dispute settlement in international trade. *International Organization*, *61*, 735–761. doi:10.1017/S0020818307070257

Christensen, L. (2009, February 26). Latvia: Mr. Domrovskis Nominated as New PM. *FLash Comment, Danske Bank*. www.danskebank.dk. Accessed 28 August 2017

Chwieroth, J. M. (2013). "The silent revolution:" How the staff exercise informal governance over IMF lending. *Review of International Organizations*, *8*, 265–290. doi:10.1007/s11558-012-9154-9

Chwieroth, J. M. (2015). Professional ties that bind: how normative orientations shape IMF conditionality. *Review of International Political Economy*, *22*, 757–787.

Copelovitch, M. S. (2010). *The International Monetary Fund in the global economy : banks, bonds, and bailouts*. Cambridge ; New York: Cambridge University Press.

Dreher, A., & Jensen, N. M. (2007). Independent actor or agent? An empirical analysis of the impact of U.S. interests on international monetary fund conditions. *Journal of Law & Economics*, *50*, 105–124. doi:Doi 10.1086/508311

European Commission. (2008, October 31). Commission proposes financial assistance to Hungary and an increase in overall BoP loans ceiling. *European Commission*. http://europa.eu/rapid/press-release_IP-08-1612_en.htm?locale=en. Accessed 28 August 2017

European Commission. (2009a, June 7). Statement after Commission financial assistance review mission to Latvia. *European Commission*. http://europa.eu/rapid/press-release_IP-10-698_en.htm?locale=en. Accessed 28 August 2017

European Commission. (2009b, July 2). Commission recommends 2012 for correction of the excessive deficit in Latvia and decides to release second loan instalment. *European Commission*. http://europa.eu/rapid/press-release_IP-09-1069_en.htm?locale=en. Accessed 28 August 2017

Forsberg, B. (2009, February 20). Operation Baltikum. *Affärsvärlden*. https://www.affarsvarlden.se/bors-ekonominyheter/operation-baltikum-6696724. Accessed 28 August 2017

G20. (2009, April 2). London Summit - Leaders' Statement (2 April 2009). https://www.imf.org/external/np/sec/pr/2009/pdf/g20_040209.pdf. Accessed 28 August 2017

Geddes, B. (1990). How the Cases You Choose Affect the Answers You Get: Selection Bias in Comparative Politics. *Political Analysis*, *2*, 131–150. doi:10.1093/pan/2.1.131

Gehring, T., & Oberthür, S. (2009). The Causal Mechanisms of Interaction between International Institutions. *European journal of international relations*, *15*, 125–156. doi:10.1177/1354066108100055

George, A. L., & Bennett, A. (2005). *Case studies and theory development in the social sciences*. Cambridge, Mass. ; London: MIT Press.

Henning, C. R. (2017). *Tangled governance : international regime complexity, the troika, and the euro crisis*. Oxford: Oxford University Press.

Hirschman, A. O. (1970). *Exit, voice, and loyalty: responses to decline in firms, organizations, and states*. Cambridge, Mass: Harvard University Press.

Hugh, E. (2008, December 22). Why The IMF's Decision To Agree A Lavian Bailout Programme Without Devaluation Is A Mistake. *A Fistful Of Euros*. http://fistfulofeuros.net/afoe/why-the-imfs-decision-to-agree-a-lavian-bailout-programme-without-devaluation-is-a-mistake/. Accessed 28 August 2017

Hugh, E. (2009, June 29). Are The IMF and The ECB Lining Up Against The EU Commission Over Latvia? *A Fistful Of Euros*. http://fistfulofeuros.net/afoe/are-the-imf-and-the-ecb-lining-up-against-the-eu-commission-over-latvia/. Accessed 28 August 2017

IMF. (2008). *Republic of Latvia - Assessment of the Risks to the Fund and theFund's Liquidity Position*. Washington, D.C.: International Monetary Fund.

IMF. (2009a). *Republic of Latvia: Request for Stand-By Arrangement*. Washington, D.C.: International Monetary Fund.

IMF. (2009b). *Minutes of Executive Board Meeting 08/114-1: Republic of Latvia - Request for Stand-By Arrangement*. Washington, D.C.: International Monetary Fund.

IMF. (2009c). *Republic of Lativa: First Review and Financing Assurances Review Under the Stand-By Arrangement*. Washington, D.C.: International Monetary Fund.

IMF. (2009d, April 4). Transcript of a Press Conference by International Monetary Fund (IMF) Managing Director Dominique Strauss-Kahn at the Group of 20 (G-20) Summit. *International Monetary Fund*. https://www.imf.org/en/News/Articles/2015/09/28/04/54/tr040209. Accessed 28 August 2017

© October 2017 / GEG WP 136

IMF. (2009e, July 27). IMF Reaches Staff-Level Agreement with the Latvian Authorities on First Review Under Stand-By Arrangement. *International Monetary Fund*. https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr09269. Accessed 28 August 2017

IMF. (2009f, August 27). IMF Completes First Review Under Stand-By Arrangement with Latvia and Approves €195.2 Million Disbursement. *International Monetary Fund*. http://www.imf.org/en/News/Articles/2015/09/14/01/49/pr09290. Accessed 28 August 2017

IMF. (2013a). Stocktaking the Fund's Engagement with Regional Financing Arrangements.

IMF. (2013b). *Republic of Latvia: Ex Post Evaluation of Exceptional Access Under the 2008 Stand-By Arrangement*. Washington, D.C.: International Monetary Fund. https://www.imf.org/external/pubs/ft/scr/2013/cr1330.pdf. Accessed 28 August 2017

IMF. (2015). *The Fund's Lending Framework and Sovereign Debt - Further Considerations*. Washington, D.C.: International Monetary Fund.

IMF. (2017a). *Adequacy of the Global Financial Safety Net--Proposal for a New Policy Coordination Instrument*. Washington, D.C.: International Monetary Fund. https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/07/26/pp072617-adequacy-of-the-global-financial-safety-net. Accessed 11 September 2017

IMF. (2017b, July 31). Collaboration Between Regional Financing Arrangements and the IMF. IMF Policy Paper.

Independent Evaluation Office. (2014). IMF Response to the Financial and Economic Crisis, 55.

Keohane, R. O., & Victor, D. G. (2011). The Regime Complex for Climate Change. *Perspectives on politics*, *9*, 7–23. doi:10.1017/S1537592710004068

Kincaid, G. R. (2016). The IMF's Role in the Euro Area Crisis: What are the Lessons from the IMF's Participation in the Troika?, 79.

Krugman, P. (2008, December 23). Latvia is the new Argentina (slightly wonkish). Opinion Pages.

Lütz, S., & Kranke, M. (2014). The European rescue of the Washington Consensus? EU and IMF lending to Central and Eastern European countries. *Review of International Political Economy*, *21*, 310–338. doi:10.1080/09692290.2012.747104

Magnusson, N. (2009, June 29). Rogoff Says Latvia Should Devalue Its Currency, Direkt Reports.

Morse, J. C., & Keohane, R. O. (2014). Contested multilateralism. *Review of International Organizations*, *9*, 385–412. doi:10.1007/s11558-014-9188-2

Nelson, S. C. (2014). Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions. *International Organization*, *68*, 297–328. doi:10.1017/S0020818313000477

Oatley, T., & Yackee, J. (2004). American interests and IMF lending. *International Politics*, *41*, 415–429.

Orsini, A., Morin, J. F., & Young, O. (2013). Regime Complexes: A Buzz, a Boom, or a Boost for Global Governance? *Global governance*, *19*, 27–39.

Raustiala, K., & Victor, D. G. (2004). The regime complex for plant genetic resources. *International Organization*, *58*, 277–309. doi:10.1017/S0020818304582036

Rosenberg, C. (2009, January 9). Why the IMF Supports the Latvian Currency Peg. *Roubini Economonitor*. http://www.economonitor.com/blog/2009/01/why-the-imf-supports-the-latvian-currency-peg/. Accessed 28 August 2017

Roubini, N. (2009, June 10). Latvia's currency crisis is a rerun of Argentina's. *Financial Times*. London.

Stokes, M. (2008, December 31). Devaluation In Latvia: Why Not? *Roubini Economonitor*. http://www.economonitor.com/analysts/2008/12/31/devaluation-in-latvia-why-not/. Accessed 28 August 2017

Stone, R. W. (2002). *Lending credibility : the IMF and the post-communist transition*. Princeton, N.J.: Princeton University Press.

Thacker, S. C. (1999). The high politics of IMF lending. *World politics*, *52*, 38–+.

Woods, N. (2006). *The globalizers : the IMF, the World Bank, and their borrowers*. Ithaca, N.Y. ; London: Cornell University Press.

Woods, N. (2010). Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers? *Global Policy*, *1*, 51–63. doi:10.1111/j.1758-5899.2009.00013.x

Working Papers

Maria A. Gwynn	WP 2017/135 China and Brazil's Infrastructure Initiatives and the Role of Regional Counterparts
Peter Knaack and Julian Gruin	WP 2017/134 From shadow banking to digital financial inclusion: Regulatory framework contestation between China and the FSB
Nghia Trong Pham	WP 2017/133 Labour Provisions in the US and EU FTAs: A Two-Level Games Perspective
Maria A. Gwynn	WP 2017/132 Investment Disputes, Sovereignty Costs, and the Strategies of States
Radha Upadhyaya	WP 2017/131 Low Income Countries and Adoption of Global Banking Standards – A Case Study of Kenya
Zheng Chen and Yanchuan Liu	WP 2017/130 Granting Reassurance While Posing Challenge: Explaining China's Creation of the Asian Infrastructure Investment Bank
Scott James and Lucia Quaglia	WP 2017/129 Brexit and the Limits of Financial Power in the UK
Emily Jones and Peter Knaack	WP 2017/127 The Future of Global Financial Regulation
Kako Kossivi Nubukpo	WP 2017/126 Misalignment of exchange rates: what lessons for growth and policy mix in the WAEMU?
Peter Knaack	WP 2017/125 An unlikely champion of global finance: Why is China exceeding international banking standards?
Nghia Trong Pham	WP 2017/124 Trade and Labour Rights: The Case of the TPP
Ali Hasanain, Yasir Khan, and Arman Rezaee	WP 2016/123 Crowdsourcing government accountability: Experimental evidence from Pakistan
Emma Aisbett and Lauge Poulsen	WP 2016/122 Relative Treatment of Aliens: Firm-level Evidence from Developing Countries
Katharina Obermeier	WP 2016/121 "Countries Don't Go Bankrupt": Sovereign Debt Crises and Perceptions of Sovereignty in an Era of Globalisation
Adam Ng	WP 2016/120 The Tangibility of the Intangibles: What Drives Banks' Sustainability Disclosure in the Emerging Economies?
Geoffrey Gertz	WP 2016/119 Commercial Diplomacy and American Foreign Policy
Jolyon Ford	WP 2016/118 The risk of regulatory ritualism: proposals for a treaty on business and human rights
Nematullah Bizhan	WP 2016/117 Improving the Fragile States' Budget Transparency: Lessons from Afghanistan
Taylor St John and Noel Johnston	WP 2016/116 Who Needs Rules? Explaining Participation in the Investment Regime
Zainab Usman	WP 2016/115 The Successes and Failures of Economic Reform in Nigeria's Post-Military Political Settlement
Ivaylo Iaydjiev	WP 2016/114 Host's Dilemma in International Political Economy: The Regulation of Cross-Border Banking in Emerging Europe, 2004-2010
Carolyn Deere Birkbeck	WP 2016/113 From 'Trade and Environment' to the Green Economy: The WTO's Environmental Record and Discourse on Sustainable Development at 20
Lauge Poulsen and Emma Aisbett	WP 2015/112 Diplomats Want Treaties: Diplomatic Agendas and Perks in the Investment Regime
Carolyn Deere Birkbeck and Kimberley Botwright	WP 2015/111 Changing Demands on the Global Trade and Investment Architecture: Mapping an Evolving Ecosystem
Pichamon Yeophantong	WP 2015/110 Civil Regulation and Chinese Resource Investment in Myanmar and Vietnam
Nematullah Bizhan	WP 2015/109 Continuity, Aid and Revival: State Building in South Korea, Taiwan, Iraq and Afghanistan
Camila Villard Duran	WP 2015/108 The International Lender of Last Resort for Emerging Countries: A Bilateral Currency Swap?
Tu Anh Vu Thanh	WP 2015/107 The Political Economy of Industrial Development in Vietnam: Impact of State-Business Relationship on Industrial Performance 1986-2012 (forthcoming)
Nilima Gulrajani	WP 2015/106 Bilateral donors in the 'Beyond Aid' Agenda: The Importance of Institutional Autonomy for Donor Effectiveness (forthcoming)

Previous GEG Working Papers can be downloaded at: http://www.geg.ox.ac.uk/publications/working-papers

The Global Economic Governance Programme was established in 2003 to foster research and debate into how global markets and institutions can better serve the needs of people in developing countries. The program is co-hosted by University College and the Blavatnik School of Government.

The three core objectives of the Programme are:

- to conduct and foster research into international organizations and markets as well as new public-private governance regimes
- to create and develop a network of scholars and policy-makers working on these issues
- to influence debate and policy in both the public and the private sector in developed and developing countries

To find out more:

www.geg.ox.ac.uk

geg@bsg.ox.ac.uk

GlobalEconomicGovernanceProgrammeOxford

@GlobalEconGovce