

The International Monetary Fund, crisis management and the credit crunch

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The International Monetary Fund (IMF) has become one of the most controversial international institutions in history. The IMF's crisis management responsibilities expanded via its involvement with a series of international economic crises during the last three decades, which led to widespread calls for radical reform of the organisation in the aftermath of the emerging market crises of the 1990s. This article examines the IMF's initial response to managing the effects of the global credit crunch, focusing on the new round of large IMF loans approved in late 2008 and early 2009, to assess how much IMF lending policies have changed in practice compared with earlier international crisis episodes. While the organisation has continued to promote conventional loan policy targets aimed at achieving low inflation, low budget deficits, and sustainable public debt, the preliminary evidence also suggests the IMF is developing a more flexible approach to crisis management in borrowing member states. Changes include a greater tolerance for unorthodox policies such as short-term capital controls, greater differentiation in the treatment of borrowers based on their economic circumstances, easier access to precautionary IMF financing for prime borrowers, and more flexibility in the use of loan conditionality.

For a decade after the Asian financial crisis in 1997–8, the International Monetary Fund (IMF) experienced a slow-burning institutional crisis driven by a decline in the organisation's practical legitimacy, controversy over the distribution of voting power on the IMF's Executive Board, and widespread criticisms of the stringent policy conditions attached to IMF loans. For most of the past 10 years, these institutional challenges have prompted emerging market economies to avoid compromising their economic sovereignty through IMF loan programs at all costs, while major sponsors such as the United States sidelined the IMF's involvement in the construction of new global financial rules, choosing instead to work through less formal international forums such as the Group of Seven (G-7), the Group of Twenty (G-20), and the Financial Stability Forum. The cumulative impact of these developments directly led to

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tighter budget constraints for the IMF, which prompted the largest reduction in IMF staff numbers in the organisation's 65-year history.

For many observers, these developments signified the increasing marginalisation of the IMF's role in the world economy, or at best suggested the strong possibility that the IMF would slowly 'slip into obscurity' (King 2006). At the same time as these trends were unfolding, however, a broader view of the IMF's history might have suggested the need for greater caution with respect to predictions of the organisation's imminent demise. In practice, the influence of multilateral institutions in international affairs seldom remains constant over time, and instead tends to continually oscillate between a peak and a nadir just as the relative material strength of individual states is never permanently fixed.

In the case of the IMF, the organisation's relative importance in the world economy tends to increase during episodes of international economic crisis and to decrease during periods of broad macroeconomic stability. With the onset of the subprime mortgage crisis in the United States during the middle of 2007 and the subsequent global 'credit crunch', the IMF's role initially appeared to remain peripheral to national policy responses as well as for multilateral attempts to foster international cooperation and macroeconomic policy coordination (Beeson and Broome 2008). Since late 2008 onwards, however, the IMF has once again emerged as a crucial source of external financial support for emerging market and less developed countries under financial distress, with numerous countries applying for IMF loan programs or precautionary funding agreements. Furthermore, the recent G-20 heads of government meeting in London in April 2009 agreed in principle to triple the IMF's lending capacity from US\$250 billion to US\$750 billion, while the communiqué from the subsequent meeting of the IMF's International Monetary and Financial Committee included the possibility of market borrowing to boost the organisation's resources (IMF 2009f). In short, after a period of declining relevance in the world economy, the IMF is now back in business, with the organisation establishing new loan facilities in an attempt to overcome the widespread criticisms of its lending practices and hence avoid a repetition of past controversies. Despite these well-publicised changes in IMF policies, an important question that as yet remains unanswered is whether the IMF's new rules of engagement with its borrowing member states actually represent a marked change in practice. This article compares the historical legacy of the IMF's crisis management role with its actions in the current global financial crisis, based on a review of the new round of IMF lending that has so far been agreed, in order to evaluate the degree to which the IMF's recent actions reflect a substantive change in the organisation's *modus operandi*, or whether the IMF's involvement in economies severely affected by the credit crunch is largely a continuation of business as usual for the organisation.

The article proceeds as follows. The first section briefly examines the IMF's search for a new global role in the aftermath of the breakdown of the Bretton Woods exchange rate system in the 1970s, and how the IMF strengthened its

international crisis management tasks during the Latin American debt crisis in the 1980s. This is followed in section two by an overview of the further evolution of the IMF's crisis management role during the 1990s, focusing in particular on how the IMF's functions changed in the course of its involvement with the post-communist transition in East and Central Europe and the former Soviet Union, the ongoing sovereign debt crisis in heavily indebted poor countries (HIPCs), and the intense controversies surrounding the IMF's actions during emerging market economy crises in Mexico and East Asia. Section three examines how the IMF's response to the Asian financial crisis of 1997–8 subsequently initiated an institutional crisis within the IMF itself, leading to increasing calls for IMF reform from across the political spectrum. Turning to more recent developments in the IMF's crisis management efforts, section four surveys the IMF's response so far to the global credit crunch. Here, I concentrate on examining the new round of IMF lending to crisis-stricken economies to evaluate the degree of change in IMF policies in practice. The article concludes by suggesting that the IMF's early interactions with states seeking new loans in response to the current financial crisis indicate that the organisation is developing a more pragmatic and (comparatively) more flexible approach to its reform programs than it has taken in the recent past.

The IMF and the Latin American debt crisis

One of the IMF's primary responsibilities throughout the organisation's history has been to help shore up macroeconomic stability in fragile economies, especially those experiencing short-term balance of payments shortfalls. While the IMF has since become synonymous with crisis management and the provision of emergency financing in developing economies, during the first three decades of its existence the IMF also played a major role in crisis management in a number of wealthy industrialised states, such as the United Kingdom (Clift and Tomlinson 2008). Although industrialised economies emerged as persistent creditors to the IMF from the late 1970s onwards, after which no 'Western' economy borrowed from the organisation under an IMF stand-by arrangement loan until the financial meltdown in Iceland in 2008, the IMF continued to act as a source of comparative policy advice for crisis management in non-borrowing developed economies such as Sweden (in the currency devaluation crisis of the early 1980s and the banking crisis of the early 1990s) and New Zealand (in the foreign exchange crisis and subsequent economic liberalisation program of the mid and late 1980s) (Broome and Seabrooke 2007). With respect to the IMF's borrowing member states, the organisation has been closely involved with four main international crisis episodes during the last three decades: the Latin American debt crisis of the 1980s; the economic crises associated with the post-communist transition in East and Central Europe and the former Soviet Union; the emerging market

currency crises of the 1990s and early 2000s; and the long-running sovereign debt crises in HIPCs.

The types of roles performed by the IMF during the Latin American debt crisis in the 1980s chiefly involved the organisation acting as an international policy advisor, a source of external constraint on governments' macroeconomic policies, and an external coordinator for different groups of private and public creditors. While the IMF's role in performing these specific tasks was important, the broad parameters of the multilateral response to the crisis were primarily shaped by the United States. Following the announcement by Mexico's finance minister in August 1982 that the government was suspending its interest payments on foreign bank loans, the US government took the lead, supported by the central banks of other major developed economies, in organising a large bailout package to extend new loans to the country in an attempt to contain the short-term effects of Mexico's debt moratorium for the international financial system. In addition, the US government later played a key role in negotiating debt rescheduling and refinancing agreements between the Mexican government and commercial banks. Despite these efforts to contain the systemic impact of Mexico's sovereign debt crisis, 20 other developing countries sought debt rescheduling agreements during 1983 after the announcement of Mexico's debt moratorium, which led to the IMF gaining greater responsibility for coordinating debt renegotiations between borrowing countries and commercial lenders (Kapstein 1996: 88–9).

When the Latin American debt crisis first emerged in the early 1980s, the IMF was an organisation in search of a new global role. In particular, with the breakdown of the Bretton Woods system and the shift to market-determined 'floating' exchange rates during the 1970s, the IMF's international policy coordination role was significantly diminished. This was partly a result of the watering down of states' formal obligations as IMF members when the organisation's Articles of Agreement were amended in 1978, which established a greater focus on fostering voluntary compliance with broad principles that constituted 'soft international law' rather than requirements to fulfil specific objectives under clearly defined formal rules (Gold 1983). Soft law is distinguishable from hard law because it refers to weaker binding obligations on states, less precise obligations, or when authority for interpreting and implementing a state's legal obligations is not delegated to an external organisation but remains with states themselves (Abbott and Snidal 2000: 421–2). As a consequence of changes to the international monetary system during the 1970s, the balance of authority between the IMF and its member states over exchange rate decisions that had characterised the Bretton Woods system shifted firmly back towards exchange rate decisions becoming an internal decision for individual states, albeit with policy guidance from the IMF (Gold 1984: 1541).

Against this broader background of organisational change, the Latin American debt crisis had important consequences for the IMF's global crisis

management role in two main respects. First, the IMF's importance for sovereign debt renegotiations involving official creditors was reaffirmed and strengthened. Under the existing principles of the Paris Club of developed country creditors, states seeking to reschedule the timetable for repaying official loans had to have an IMF loan program in place to assure creditors that the new terms for repaying loans would be observed (Rieffel 1985). Because of the unprecedented scope and size of sovereign debt renegotiations during the early 1980s, this provision served to consolidate the IMF's importance for official creditors as a source of external constraint on debtor governments' policy discretion, thereby strengthening the value of the IMF as an integral component of 'cross-conditionality' for borrowers that extended across both bilateral and multilateral lenders. Second, the IMF also gained greater importance for private creditors such as international commercial banks with large outstanding sovereign loans to developing countries. This resulted from the IMF's capacity to design and monitor macroeconomic stabilisation programs for individual sovereign debtors, which allowed private lenders to restrict their level of involvement in debtor countries' domestic politics. In addition, the IMF helped to solve an international collective action problem through facilitating agreement on debt rescheduling terms among the numerous private creditors that were involved (Lipson 1985: 92–3).

The evolution of the IMF's crisis management role

In the aftermath of the Latin American debt crisis of the 1980s, the IMF has continued to perform a range of functions as a mediator between external creditors and sovereign debtors in subsequent international crisis episodes throughout the last two decades. The IMF has also assumed a broader range of international responsibilities in response to the different types of crisis challenges the organisation subsequently faced. As the main international institution charged with overseeing the post-communist 'transition' to market-based economies, for example, the IMF gained increased importance from its role in providing a source of information for the international financial community about the quality of the local institutional environment and the policy intentions of the authorities in former centrally planned economies, especially in the case of the former Soviet republics after the demise of the Soviet Union. In this respect, the IMF effectively sought to operate as a reputational intermediary that could improve the confidence of external creditors in the quality of the economic policy environment in the newly independent post-Soviet states, rather than simply a mediator and external policy enforcer in a bargaining game over sovereign debt renegotiations. Through this broader process of interaction and the gradual negotiation of market-oriented policy reforms, the IMF's involvement in structural economic transformation in post-communist economies influenced their capacity to gain access to other sources

of bilateral and multilateral official development assistance, their ability to achieve debt relief through the Paris Club process, and their attractiveness as a destination for private investment (Broome 2008).

A further role for the IMF that was consolidated through its involvement with the post-communist transition in the former Soviet republics was a function similar to that of a 'lender of last resort' for economies that are shut out of private international capital markets. With the dramatic growth of international capital markets following the removal of Bretton Woods-era controls on capital account transactions (Abdelal 2007), developed economies and many emerging market economies could rely on private sources of capital to fund balance of payments shortfalls, thereby obviating the need for the IMF to act as a revolving credit facility for *all* its member states. Instead of performing this more universal role, the IMF gradually assumed the narrower task of acting as a lender of last resort for sub-par sovereign borrowers, including states that developed a long-term dependence on IMF loans (and the access to official development assistance this implied) due to the lack of alternative sources of external financing. A number of the former Soviet republics subsequently graduated from sub-par borrower status and were able to increase their access to foreign direct investment. For example, Kazakhstan was gradually able to build up significant foreign exchange reserves, due largely to exports of natural resources, which enabled the country to repay its outstanding IMF loans ahead of schedule in 2000 and to gain investment-grade status with global credit-rating agencies. Others, such as the Kyrgyz Republic, have continued to depend on access to IMF resources for financing budget shortfalls and have therefore joined the ranks of a large subset of prolonged IMF borrowers (Bird 2004).

This subgroup of IMF members includes very poor indebted economies that are long-term IMF borrowers, which were given the label of *heavily indebted poor countries* by the IMF and the World Bank during the 1990s. With their collective sovereign debts rapidly rising from US\$55 billion in 1980 to US\$183 billion in 1990 and US\$215 billion in 1995, during the last two decades non-governmental organisation (NGO) networks focusing on debt issues such as Jubilee 2000, Oxfam International, and Eurodad gradually helped to persuade the governments of developed countries and the IMF and the World Bank that this group of economies continued to face a severe and long-term sovereign debt crisis (Broome 2009). Although progress on developing appropriate multilateral policy solutions to the HIPC debt crisis has been painstakingly slow over the last two decades, recent initiatives have gone a long way to addressing some of the major concerns and criticisms articulated by NGOs, while at the same time expanding the degree of external intervention by the IMF and the World Bank in designing and monitoring reforms to national economic governance. In particular, through the establishment of the HIPC Initiative in 1996, the Enhanced HIPC Initiative in 1999, and the Multilateral Debt Relief Initiative in 2006, the IMF has gained greater responsibility for overseeing domestic policy reforms that focus on poverty reduction in this group of less developed

economies (Blackmon 2008; Craig and Porter 2003; Sumner 2006). Moreover, in the HIPC group as well as other developing countries, the IMF has further expanded its reform ambit by (somewhat reluctantly) encompassing institutional changes that are geared towards establishing 'good governance' (Kapur and Webb 2000; Thirkell-White 2003). These changes have gradually stretched the IMF's administrative authority well beyond the organisation's more narrow traditional focus on loan policy conditions that are directly related to macroeconomic stability.

The increasing scope and variety of crisis management responsibilities that the IMF undertook throughout the 1990s therefore served to expand its activities outside its original formal mandate, as well as placing greater strain on the IMF's technical and financial resources. The more prominent international role that the IMF assumed in the process of increasing its functions also attracted a higher degree of public controversy and criticism. As a consequence, the IMF's involvement with the post-communist transition throughout the 1990s has since been extensively scrutinised (Broome 2010; Pop-Eleches 2009; Stone 2002), and the organisation has frequently been severely criticised for some of the specific actions it took during this process and more broadly for the numerous policy failures that characterised the systemic transformations that the collapse of communism set in train. As the following discussion illustrates, however, the most sustained and universal criticisms of the IMF from policy makers in both borrower and creditor countries, the international news media, mainstream and radical economists, and NGOs were stimulated by its response to the currency crises in East Asia during 1997–8.

Institutional crisis and IMF reform

The roots of the IMF's institutional dilemma of the last 10 years can be traced back to the development of its contemporary crisis management role with the expansion of IMF conditionality during the 1980s (Buirra 1983; Haggard 1985), as well as to the increasingly complex challenges the organisation has faced in formulating an effective response to financial crises in an international environment where the organisation's resources have been dwarfed by the growth of global capital flows (James 1996: 589). With the experience of the Asian financial crisis in 1997–8, existing critiques of the IMF's international crisis management role were given renewed political momentum and greater urgency. The main criticisms of the IMF's role in the emerging market currency crises of the 1990s can be organised into three groups: (1) criticisms of the expansive nature of the IMF's loan conditions for crisis-affected economies, including the critique that the IMF misdiagnosed the causes and the design of solutions for financial crises in the case of East Asia; (2) criticisms of the 'moral hazard' problem that IMF lending generates for external creditors and sovereign

borrowers; and (3) criticisms of the IMF's outdated system of member state representation.

The IMF's interventions in domestic policy reform and institutional change during the Asian financial crisis of 1997–8 were both qualitatively and quantitatively distinct from its involvement with earlier crises in middle-income developing economies. Among other things, this included a significant increase in the scale of IMF-sponsored policy reform programs and the scope of policy conditions (Thirkell-White 2007: 24). Typical IMF loan agreements during the Asian financial crisis incorporated a much longer list of policy conditions and structural reform benchmarks than had been the case during the Latin American debt crisis and other previous loan arrangements, despite many observers diagnosing the problem as a capital account crisis caused by premature financial liberalisation (Bhagwati 1998), rather than stemming directly from fundamental structural problems in East Asian economies. These changes reflected a steady increase in the average total number of conditions attached to IMF loans from the 1980s onwards, as well as a shift from target conditions (which specify economic objectives such as public debt levels) to procedural conditions (which further constrain domestic policy discretion through requiring institutional reforms such as a change in exchange rate regime or the adoption of legal central bank independence) (Allegret and Dulbecco 2007: 310).

Furthermore, rather than mitigating the effects of the financial crises in East Asia, several observers credited the IMF's actions and policy advice with significantly worsening the regional economic downturn (Crotty and Lee 2009; Wade and Veneroso 1998). The intense volume and range of criticism that was subsequently directed at the IMF's record in East Asia, which included criticism from a number of mainstream liberal economists, prompted the organisation to set up an independent review agency in 2001—the Independent Evaluation Office (IEO)—to assess the quality and effectiveness of the IMF's operations (see Park in this issue). The IEO's subsequent report on the IMF's role in capital account crises strongly criticised both the organisation's pre-crisis economic surveillance in the cases of Indonesia and South Korea, as well as the design of IMF loan programs to respond to their financial crises, and concluded that 'a crisis should not be used as an opportunity to force long-outstanding reforms ... in areas that are not critical to the resolution of the crisis' (International Monetary Fund Independent Evaluation Office 2003).

In the aftermath of the financial crises in East Asia, a vigorous debate ensued over how the IMF's international crisis management role—and the international financial architecture more broadly—should be reformed. This debate prompted an intense partisan struggle between the outgoing Clinton administration and the Republican-controlled US Congress during 2000 over the report of the International Financial Institution Advisory Commission (the 'Meltzer Commission'), which recommended significantly scaling back the IMF's international responsibilities (BBC News 2000). Following the Asian financial crisis, US Republican politicians in particular expressed greater scepticism about the

strategic value of international financial bailouts as well as concern over the ‘moral hazard’ problems generated by IMF lending, which potentially encourages both lenders and borrowers to take greater risks than they might be willing to chance in the absence of the IMF (Willett 2001: 604–5). Yet, despite growing US opposition to addressing international problems through multi-lateral institutions, after the Bush administration took office in 2001, the IMF’s activities were not curtailed to the extent implied by George W. Bush’s support for the Meltzer Commission’s recommendations during the 2000 presidential campaign (Thirkell-White 2007: 35). However, the Bush administration was successful in pushing for the development of clear limits and formal criteria for ‘exceptional borrowing’ from the IMF in future international crises (Taylor 2004). At the same time, following a spike in IMF lending due to large loans to Turkey and Argentina in 2002 and 2003, the IMF’s operating budget came under pressure due to a significant decline in new lending and a reduction in IMF income earned from interest and charges on loan repayments (see Figure 1). Expressed in Special Drawing Rights (SDRs, the IMF’s unit of account), the IMF’s income from loan interest and charges dropped significantly from an annual average of over SDR 2 billion between 1998 and 2005 to a mere SDR 484 million in 2007. The unwillingness of emerging market economies to borrow from the IMF forced the organisation to announce at the end of 2007 that it

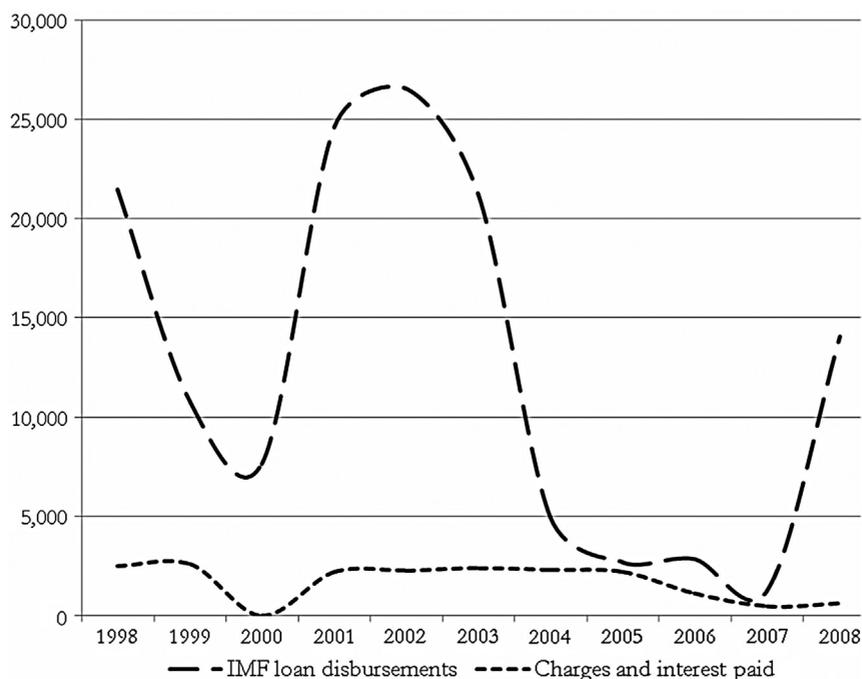


Figure 1. IMF loan disbursements and income (in millions of SDRs), 1998–2008.
Source: Data compiled from the IMF website, <www.imf.org> (accessed 28 May 2009).

would have to cut 300 to 400 jobs (15 percent of its staff) in order to achieve budget savings of US\$100 million in operating expenses (Rozenberg 2007).

In addition to these substantial criticisms of the organisation's role in the world economy, numerous observers have also called for reforms to the IMF's system of weighted voting, which concentrates formal decision-making power within the organisation in the hands of large industrialised economies and dilutes the collective influence of developing economies (Rapkin and Strand 2006; Woods and Lombardi 2006). In a context of increased scepticism about the IMF's utility from the USA (the IMF's largest shareholder), declining loan revenue from emerging market economies, and continued public criticism, the IMF embarked on a two-year program of governance reform in 2006. Despite subsequently reaching an agreement to increase the voting shares of more than two-thirds of the organisation's member states (IMF 2008a), the main impact of reforms to the IMF's system of representation has been to grant major emerging market economies such as China and South Korea greater voting strength, while demands for further changes to enable developing economies to play a broader and more substantive role in the IMF's decision-making processes have continued (Bretton Woods Project 2009).

The IMF's response to the credit crunch

Like national governments, the fortunes of an international institution can quickly change as a consequence of external events. While the IMF's broader institutional legitimacy problems have not yet been resolved (Beeson and Broome 2008; Seabrooke 2007), the organisation has recently found its services in much greater demand once again as countries around the world have struggled to cope with the financial distress caused by the global credit crunch. This section examines the IMF's new round of short-term lending to countries afflicted by the current financial crisis after Iceland agreed a US\$2.1 billion loan with the IMF in November 2008. To assess the degree of change in the IMF's lending practices, two main variables are considered: (1) how easily members have gained access to the IMF's resources; and (2) the types of policy targets and structural reforms that are stipulated in new loan agreements.

The processing of new IMF loan applications in the current financial crisis has so far been rapid. Figure 2 shows the 12 countries that have had new loans of over SDR 1 billion (approximately US\$1.5 billion) approved by the IMF between the start of November 2008 and the end of May 2009 (excluding countries that already had IMF loan arrangements in place), several of which had not borrowed from the IMF in over a decade. Among this group, approved IMF loans range in size from SDR 1.01 billion for Bosnia and Herzegovina to SDR 31.5 billion (approximately US\$47 billion) for Mexico. Over this seven-month period, approved IMF loans to these 12 countries alone totalled SDR 98.5 billion (approximately US\$148 billion). This demonstrates a marked

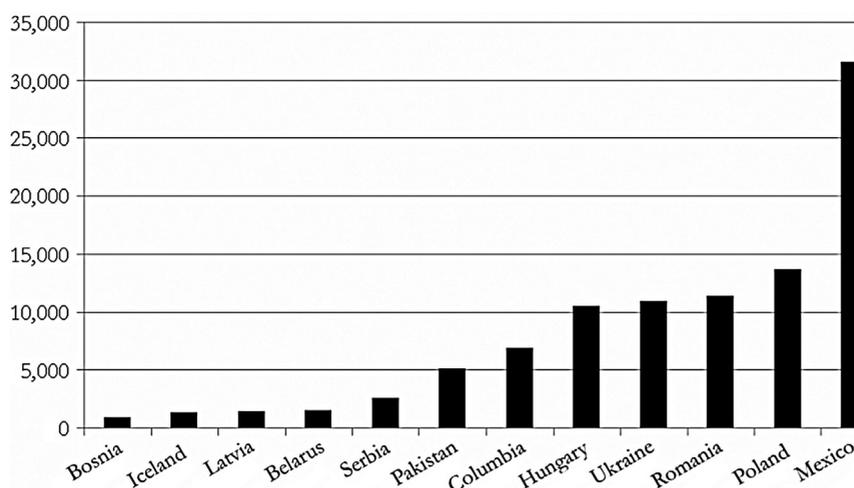


Figure 2. New IMF lending (in millions of SDRs), October 2008–April 2009.

Source: Data compiled from the IMF website, <www.imf.org> (accessed 28 May 2009).

turnaround in the IMF's balance sheet compared with the past five years, and is a higher amount of credit than total IMF loan disbursements for the eight-year period from the beginning of 2000 to the end of 2007 (SDR 92 billion). While less than one-third of the approved loans to these 12 countries has so far been disbursed (SDR 27.8 billion at the end of October 2009), this increase in the volume of loan approvals indicates a much greater willingness on the part of emerging market economies to seek precautionary access to the IMF's resources as a form of insurance against future financing needs.

From these 12 countries that have recently had new large IMF loans approved in response to the global credit crunch, the loan conditions agreed between national policy makers and IMF staff for three cases will be briefly examined to evaluate the key features of the IMF's current lending practices. These three cases include: a Western economy (Iceland), a transition economy (Belarus), and a large emerging market economy (Mexico). With certain qualifications, the IMF's new round of lending in these countries suggests that the organisation's loan practices and design of policy conditions may indicate a greater degree of policy flexibility from the IMF, as the following discussion illustrates.

Among recent IMF borrowers, Iceland had the unenviable position of being the first Western economy to be forced to turn to the IMF for financial assistance in over three decades as a result of a severe banking crisis in late 2008, when the country's highly leveraged three main banks (accounting for 85 percent of the banking system) collapsed within a week. The main initial focus of the economic program that Iceland agreed with the IMF centred on a dramatic tightening of monetary policy and commencing a process of bank restructuring, with key 'prior actions' before an IMF loan was approved including raising interest rates to 18 percent in October 2008 and the

establishment of a high-level policy committee on financial restructuring. The key conditionality targets for Iceland under the stand-by arrangement centred on keeping to agreed fiscal and monetary constraints, such as a floor on the government's budget deficit and net international reserves, as well as ceilings on new central bank credit to commercial banks and for new external public debt. Medium-term procedural conditions included recapitalising new banks to increase capital adequacy ratios to 10 percent, compiling an expert assessment of financial supervision and prudential regulation, and drafting plans for achieving long-term fiscal sustainability (IMF 2008b).

Many of these measures have traditionally featured in IMF loan programs in the past, and the IMF is infamous for its support of tight monetary policies (especially high interest rates, combined with restrictions on public borrowing). A marked difference in the case of Iceland compared with previous crises in East Asia during the late 1990s, however, is the IMF's (temporary) approval for Iceland to use exchange restrictions in an attempt to prevent capital outflows that would further destabilise the króna (cf. Wade and Veneroso 1998). This support for temporary restrictions on capital mobility was further maintained in February 2009 when the IMF reviewed Iceland's initial progress under the stand-by arrangement, with IMF staff noting 'the market appears to have accepted that controls are unavoidable for now' (IMF 2009a: 5). In line with the IMF's formal rules, the organisation is able to approve temporary capital controls for member states experiencing severe balance of payments crises, so long as restrictions are non-discriminatory and do not include multiple currency practices. Yet, because the organisation previously spearheaded a move to establish capital mobility (through capital account convertibility) as a formal obligation of IMF membership during the 1990s (Abdelal 2007), its support for the judicious use of exchange controls in a capital account crisis such as Iceland has experienced does indicate a somewhat greater degree of flexibility in the IMF's approach to crisis management than in the past. This reflects ongoing internal policy debates within the organisation amid reconsideration of the potential problems associated with capital account liberalisation in the aftermath of the Asian financial crisis (Ariyoshi *et al.* 2000; Chwiero 2008; IMF 2009b: 8).

The case of Belarus provides a stark contrast to Iceland. Nearly two decades after the demise of the Soviet Union, Belarus remains a state-dominated economy that has taken slow and uneven steps towards market-based structural transformation, and remains unable to access private international capital markets. Despite high annual economic growth rates averaging nearly 9 percent after 2002, the Belarusian economy continues to depend heavily on ties with Russia, while official estimates suggest that barter transactions account for 40 percent of all economic exchange (Ioffe 2004: 90). The principal focus of the IMF's US\$2.46 billion stand-by arrangement with Belarus, approved in January 2009, has been to increase support for the introduction of a new exchange rate regime. This involved a 20 percent devaluation of the Belarusian ruble against

the US dollar, and a switch from a US dollar peg to a currency basket based on the euro, the dollar, and the Russian ruble. The IMF program is geared towards increasing the central bank's foreign exchange reserves, and includes monetary tightening in order to achieve an inflation target of 11.5 percent. The reform package is also focused on removing interest rate controls on commercial loans, and eliminating existing programs through which the government directs credit to specific sectors of the economy (which recently accounted for approximately 3 percent of gross domestic product) (IMF 2009c).

The IMF's loan agreement with Belarus broadly reflects several of the IMF's previous agreements with other former Soviet republics during the 1990s (Broome 2010), with the notable exception that the agreement with Belarus is more narrowly targeted at achieving a limited range of policy objectives. In short, Belarus's stand-by arrangement with the IMF is aimed at the twin goals of fostering financial marketisation and establishing a more flexible exchange rate regime, with a higher level of international reserves to guard against exogenous shocks (especially higher energy prices for Russian gas imports). While the government of Belarus could be expected to be more committed to building up exchange reserves in order to enhance domestic monetary autonomy, and the IMF is particularly interested in financial liberalisation, the agreement provides a set of opportunities for the ongoing negotiation of policy reforms in a country that has not received an IMF loan since the end of 1996.

Mexico also represents a very different case for the IMF to either Iceland or Belarus. Rather than apply for a traditional stand-by arrangement with the IMF, Mexico's government chose to seek a loan under the organisation's new Flexible Credit Line (FCL), which was approved by the IMF's Executive Board in April 2009. The FCL is one of the IMF's flagship responses to the global credit crunch, and is designed to demonstrate to emerging market economies that the IMF has learned from past policy mistakes in dealing with financial crises in middle-income countries. In particular, the FCL aims to incorporate a shift in IMF loan policy from *ex post* conditionality to *ex ante* conditionality for 'good performers', whereby states that have a good track record of policy implementation under IMF reform programs and strong economic fundamentals can access large IMF loans without submitting to an ongoing process of periodic policy reviews that determine whether further tranches of a loan will be disbursed. The FCL therefore grants eligible countries the potential to access more money up front in a crisis, with fewer strings attached, or to use the FCL as a precautionary instrument for crisis prevention (IMF 2009d). Potentially more important in terms of the IMF's institutional legitimacy, however, is that emerging market economies were consulted by the IMF in the process of developing the new FCL, in an attempt by the organisation to overcome the stigma that has become associated with borrowing from the IMF (*Economist* 2009).

One of the prime selling points articulated by the IMF for granting Mexico unprecedented access to the organisation's resources through the new FCL is the

country's high degree of policy credibility (cf. Broome 2008), based upon a strong macroeconomic track record over the past decade. In this respect, the IMF has made a greater distinction between short-term financial shocks—which could lead to a capital account crisis—and an otherwise 'sound' rules-based policy framework and solid economic circumstances than it has been credited with doing in the recent past. The IMF has also supported the Mexican central bank's US\$20 billion discretionary interventions in the country's foreign exchange market since September 2008 (while maintaining a flexible exchange rate regime), the first such intervention in the country's foreign exchange markets in the last decade (IMF 2009e).

By securing a high level of precautionary external financing (including a US\$30 billion swap arrangement, until October 2009, with the US Federal Reserve, as well as US\$5 billion in other multilateral loans in 2009), Mexico aims to use its up-front access to the IMF's resources to insure the economy against capital outflows through boosting its potential reserves. While this suggests a significant change in IMF practices with respect to access to loans and *ex post* loan conditions, this new lending facility remains limited to comparatively wealthy emerging market economies that have demonstrated a commitment to 'IMF-friendly' policies, including a rules-based rather than a discretionary policy-making framework (such as inflation targeting and Mexico's 'balanced budget' rule), low inflation, low/sustainable public debt, information transparency, and access to private capital markets (IMF 2009e). This puts the new loan facility out of reach for most of the IMF's member states that have not achieved such solid 'economic fundamentals', or which have not established open capital accounts or embraced an explicit rules-based framework for macroeconomic policy.

In contrast with the IMF's earlier attempts at establishing a new short-term credit facility for middle-income economies, such as the Compensatory Finance Facility (which was originally established in 1963, but was not used after it was streamlined in 2000) and the Short-Term Liquidity Facility (created in October 2008 but not used), the FCL has already proved popular, with the IMF approving two further precautionary FCL loans of US\$20.5 billion for Poland and US\$10.5 billion for Columbia in early May 2009. In addition to these changes to loans for middle-income economies with a strong 'IMF-friendly' policy track record, the IMF has also doubled the borrowing limits for low-income economies under the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility, as well as announcing plans to increase the flexibility of stand-by arrangements for countries that are ineligible for FCL loans through potentially reducing the frequency of loan program reviews and making a greater proportion of financing available up front (IMF 2009d). These changes to loan accessibility and borrowing limits are unlikely to satisfy IMF critics at either end of the political spectrum, and may lead to greater criticism from some observers because more flexible access to IMF loans could also imply a higher risk of moral hazard. Yet, for an organisation that is commonly

presented as an institutional monolith that struggles to learn from past mistakes, these policy shifts do indicate that the IMF's process of institutional learning and policy experimentation is continuing, albeit at a moderate pace.

Conclusion

What political economy scholars discover when they examine the IMF depends in large part on what they focus on (as well as what they expect to find). This article has placed the IMF's contemporary crisis management role in a broader historical context, and has shown how the organisation's international responsibilities have expanded and shifted dramatically during the course of the last three decades. As other recent scholarship has also shown (Pop-Eleches 2009), the IMF is a moving target that evolves and changes over time like any large organisation. Despite some long-term institutional consistencies, the IMF is not necessarily the dogged defender of extreme neo-liberalism that it is sometimes made out to be. However, due to its organisational culture—as well as the international economic environment in which the organisation must operate—the IMF remains strongly committed to the promotion of open market-based economies. This distinction is missed if scholars treat the IMF's promotion of neo-liberal economic reforms as an independent variable that explains political outcomes, rather than understanding the IMF's policy preferences as the result of an ongoing political process that should be examined in its own right. In short, to fully understand broader processes of ideational change in the global political economy, it is necessary to examine the policy contests and political debates that take place *within* a dominant intellectual perspective. For countries that have largely signed up to an 'IMF-friendly' policy framework, this is precisely what is at stake in the political economy of access to IMF credit in the current financial crisis.

This article has explored the evolution of the IMF through focusing directly on changes in the organisation's crisis management role in the aftermath of the breakdown of the Bretton Woods system in the 1970s. The global effects of the credit crunch are still reverberating, and past experience indicates that the degree to which the IMF has substantively changed its approach in practice can only be comprehensively evaluated in hindsight. Nevertheless, through a preliminary analysis of the IMF's response to the global credit crunch as it has unfolded thus far, I have suggested that the organisation has begun to develop a more flexible and a more focused approach to crisis management compared with its well-publicised policy mistakes during the emerging market capital account crises of the 1990s. At the same time, the initial stages of the IMF's new loans to Iceland, Belarus, and Mexico might imply that access to the IMF's resources has moved towards a two-track process, whereby developed and middle-income countries are able to gain more flexible access to the IMF's

resources compared with the much steeper sovereignty costs that must be borne by less developed economies.

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