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UKRAINE-IMF RELATIONS AS AN IMPORTANT FACTOR OF THE NATIONAL ECONOMIC SECURITY

Abstract

The article considers the issues of establishing relations with the International Monetary Fund in the context of the necessity to achieve the goals of national economic security. After analyzing the process of creating the IMF and defining its objectives, as well as the practice of relations between the IMF and member states, in particular with Ukraine, the author has come to several conclusions. In their opinion, Ukraine shouldn't blindly follow the recommendations of the actually trained experts of this organization, but rather propose effective reform measures that would provide for solving a complex of economic problems. These problems include: a) financial and macroeconomic stabilization (IMF's formal objectives); b) ensuring the prospects for economic growth (program objectives of the government); and (c) guaranteeing Ukraine's economic security (constitutional obligation of the President and other bodies of state power).

Key words:

International Monetary Fund, Ukraine, economic security, economic reforms, Program Ownership.

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Introduction

The threats and risks to national economic security logically increase and intensify during the period of fundamental economic reforms. First, the very need for such reforms shows that the country's economic system no longer meets the realities and requirements of the present, and therefore it may not have any safeguards against new threats, endogenous or endogenous. On the other hand, the implementation of reforms involves altering the existing equilibria of checks and balances of the economic mechanism, which can cause additional unexpected threats. Therefore, the response of L. Baltserovich, the coordinator of the International Advisory Council to the President of Ukraine, during the Kyiv Security Forum in April this year was somewhat unexpected. During our conversation, when asked about the importance of economic security issues, he said, «I do not specialize in economic security; on the contrary, I work on the liberalization of the economic system of Ukraine». Having known L. Baltserovich for a long time and having worked together on his assistance to Ukraine in the reform of the economic system, we can confidently state that he is well aware of the risks that arise during this process. However, it seemed rather strange to put economic liberalization and security opposite each other. Such inference assumes that economic security can be guaranteed only through restrictive and prohibitive measures. This misguided, in our opinion, understanding led us to consider the issues that we will try to examine in more detail in this article.

Liberalization of the economic system in the context of Ukrainian reform is directly linked to our relations with the International Monetary Fund. Memorandums of Understanding between Ukraine and IMF with regard to various funding programs act as a sort of «collection» of urgent deregulation measures, repeals of restrictions, reduced requirements, etc. In this regard, the topic of relations with the International Monetary Fund has almost always attracted the attention of researchers. In recent years it is probably among the most popular topics for economists, politicians, and political scientists. In modern Ukrainian economic literature there is no unanimous view on the relations between Ukraine and the IMF. On the one hand, there are those who believe in the positive impact of cooperation with the IMF on the national economy, on the other – those who consider the requirements of the IMF to be inadequate in light of current Ukrainian realities and believe they can lead to aggravation of the already difficult economic and social situation in the state.

Interrelations between Ukraine and the International Monetary Fund are critiacally viewed by Ukrainian scientists and practitioners from all corners of the country, in particular Y. Gavrylechko (Social Security Fund, Kyiv), M. Yermoshenko (Poltava University of Economics and Trade), V. Kozyuk (Ternopil National Economic University), A. Marina (Donetsk National Technical University), O. Mozhovyy (Kyiv National Economic University), Zh. Nesterenko (Zaporozhye National Technical University), M. Petyk (Lviv National University), O. Petryk (NBU, IMF) and others, as well as some foreign scholars such as L. Balcerowicz, J. Williamson, T. Killick, A. Åslund, etc.

However, the issue of maintaining Ukraine's financial security in conditions of cooperation with the International Monetary Fund is not adequately covered. In fact, one can only recall the article by A. Dubov from the Lviv State Academy of Finance (Dub, 2013, pp. 287–293) or the Belarusian expert P. Kirkovsky (Kirkovsky, October, 2016, p. 3). Foreign authors also mostly focus only on aspects that are related to international financial security, or rather, on the role of the IMF in ensuring the stability of international financial security (Voice of America, 9 October, 2010, electronic resource). Even in Russia, where the national security is treated with special (perhaps excessive) zeal, the role of the IMF is, again, considered mainly in the context of international financial security (Kondrat, 2015, p. 820).

It should be noted that quite often scientific works and journalistic speeches discuss certain aspects of national economic security (often debt, less so – inflation and currency), but they don't consider our bilateral relations with the International Monetary Fund in connection to this issue in particular. This is true not only for domestic but also foreign experts involved in solving such problems. In our opinion, this is a rather large gap, which does not allow to see the problem comprehensively, to consider the relationship with the IMF as an independent factor of national economic security.

Thus, the purpose of the article is to analyze the general procedure for establishing and continuing cooperation between countries with the International Monetary Fund and, upon the example of Ukraine, to identify the threats and risks that may arise in the process, as well as indicate ways of avoiding or eliminating them.

Ukraine and the IMF

Ukraine became a member of the International Monetary Fund after the Minister of Finance G. Pyatachenko signed the IMF Statute on September 3, 1992. This was preceded by considerable preparatory work done by the Ministry of Finance and the National Bank of Ukraine in accordance with the Law of Ukraine «On accession of Ukraine to the International Monetary Fund, the International Bank for Reconstruction and Development, International Finance Corporation, the International Development Association, and Multilateral Guarantee Investment Agency» (adopted from June 3, 1992). However, the first financial program for Ukraine (0, 5 billion USD) was launched only in 1994. Since then, many have seen the IMF Memorandum as a «sentence». Since Ukraine gained a rather extensive experience in its relations with the international organization.

Table 1

Stages of cooperation between Ukraine and the IMF

Stage	Period	Cooperation programme
I	1994–1995	Systemic Transformation Facility amounting to 498.7 million SDR (763.1 million USD) to support the balance of payments of Ukraine
II	1995–1998	The Stand-by Programme for a total amount of 1318.2 million SDR (1,935 million USD) to support the national currency and finance the balance of payments deficit in Ukraine
III	1998–2002	Extended Fund Facility (EFF) for 2.6 billion USD. In reality, Ukraine received 1,193 billion SDR (1,591 billion US), which was aimed at replenishing the foreign exchange reserves of the National Bank of Ukraine
IV	2002–2005 2005-2008	Prevention Stand-by Programme for 411.6 million SDR (30% of Ukraine's quota). The funds were not actually received. Ukraine's cooperation with the IMF is concentrated in the field of technical assistance. This approach corresponded to the theses expressed by the President of Ukraine: «To the Future – without debt», which argued the need for the gradual shift of focus in cooperation with the IMF to the area of non-credit relations

Stage	Period	Cooperation programme
V	2008–2010	The Stand-by Programme, with a total of 802% of Ukraine's quota in the IMF, or 11 billion SDR (approximately 16.4 billion USD). Funds in the amount of 3 billion SDR were urgently credited to the gold and foreign exchange reserves of the National Bank of Ukraine
	2010–2014	Stand-by Programme (10 billion SDR = 15.1 billion USD), approved on July 28, 2010
VI	2014–2015	The Stand-by Programme amounting to 16.5 billion USD (10.976 billion SDR). Under this program, Ukraine received two tranches of 3 billion USD (2.058 billion SDR) and 1.3 billion USD (914.7 million SDR), but in the summer of 2014, the macroeconomic indicators included in the program were significantly adjusted because of the escalation of a large-scale economic crisis in Ukraine due to the armed conflict in the East of Ukraine
VII	2015–2018	In March 2015, the IMF opened a four-year Extended Fund Facility programme with a total of 12.348 billion SDR (about 17.25 billion USD) with a first tranche of 5 billion USD. The second tranche of 1.7 billion dollars was received in August 2015, and the third – 1 billion dollars – in September 2016. The transfer of the fourth tranche is delayed, possibly till the end of 2017

IMF as an institute for international security

However, we believe it wise to consider the problems of developing relations with the IMF from a more removed perspective. Furthermore, we must take into account the fact that the International Monetary Fund was created as one of the most important institutional elements of the international economic security system, as it still defines its place and role in the globalized economy.

Although the Fund was created after the Second World War, the threat that it had to help avoid appeared much earlier. Even after the First World War, some experts, in particular J. M. Keynes believed that the reparations imposed on Germany would lead to a complete destruction of the German economy and undermine political stability throughout Europe. In particular, after a detailed analysis, J. M. Keynes (referring to the revolutionary destructive ideas of Lenin) warned that, «There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose» (Keynes, n. d., pp. 97,107,112).

Unfortunately, his comtemporary politicians did not heed such warnings, and the Great Depression, which began a few years later inspired the policy of «economic nationalism» and the «beggar-thy-neighbour» policy, which soon led to a real war.

Instead, the success of «German arms» in the early years of the war inspired Nazi leaders to ambitiously plan their future world domination in everything, including in economics. In July 1940, W. Funk (Minister of Economics and President of Reichsbank) during a press conference in Berlin announced basic principles of the «new order»[1] – *Neuordnung* – which was to be based on close cooperation between Germany and Italy and use methods that would preclude «unregulated shifts of economic forces». In particular, the monetary system would provide for fixed parities and stable exchange rates. Each government would regulate its balance of payments (through administrative methods), but it was emphasized that Germany would never agree to a system based on a means of payment which it would not be able to control.

In the United States, these intentions of the Nazis became known in advance, and this caused some concern, not so much about Europe, as about Latin America. The fact was that the nationalist circles in the southern continent had shown increasing propensity for economic and political relations with Germany. The American response to such threats was the policy of liberalization of economic relations with the Latin American countries. Even before the information about the preparation of the German economic declaration in the State Department, a memorandum with the call to adapt the inter-American economic program with the domestic programs of the US government was prepared (including the creation of a mechanism to avoid excessive exchange rate fluctuations and strengthening the monetary system and its institutions).

The United Kingdom, unlike the United States, at first did not pay much attention to the German «New Order», both before and after its announcement. For a few months there was no official reaction to this topic, which was constantly being raised on the air by German propaganda radio stations (and in the democratic countries, unlike in Germany and the USSR, there was no prohibition against listening to them, of course). Finally, in November 1940, the Information Minister sent J. M. Keynes (at that time, the responsible officer of the Ministry of Finance) a proposal to finally respond to this topic in order to somehow oppose the principles of gold standard and free trade (traditional British values) to clearing and barter ideas.

[1] Not to be confused with the «New Order for Europe» (Neuordnung Europas) – the German-Italian Declaration on the intentions of politically reorganizing Europe, which was published on August 29, 1941.

Thus, the well-known plans of H. White (USA) and J. Keynes (Britain) came into existence and became the basis of the new international monetary system and its main institution – the International Monetary Fund. The final decisions on this issue were made at the Breton-Woods (New Hampshire) conference that took place from July 1 to July 22, 1944. The conference was attended by 730 delegates from 45 countries, including those from the Soviet Union. Opening the conference, the US Secretary of the Treasury H. Morgenthau Jr. stated: «All of us have seen a great disorder and its spread from land to land breaking a base of international trade and international investment even international faith». The Brazilian representative concurred: «In memory of all us is a monetary chaos». Therefore, the historical significance of the event was felt by its participants from the very beginning (Dormael, Bretton-Woods, 1978, pp. 322, pp. 1–2).

The result of the conference was an agreement on the creation of two Breton-Woods Institutions – the IMF and IBRD (World Bank). As the American delegation explained the Breton-Woods agreement, «this document is an attempt to marry, to mingle and to blend the political aspects of this agency with the practical business aspects of the agency, the economic aspects. [Similar] institutions in the past have been established on more or less completely commercial lines. Others have been established on completely political lines. This whole document is an attempt to blend those two concepts (Bretton- Woods, 2013, p. 2).

The Fund was founded as a permanent international organization and, as emphasized in the Agreement, the United Nations were to discuss and reach agreement on those changes in systems of international monetary relations that could have an impact on other countries. Thus, they would avoid using practices that could harm the world's welfare and would help one another in settling short-term currency problems.

In general, the Breton-Woods ideology was based on two postulates, the observance of which was supposed to prevent future repetition of mistakes, which, in the opinion of many, became the main economic causes of the Second World War. The first postulate was the shift toward open markets in order to counteract economic nationalism and the second – joint management over development of the world economic system, aimed at the overall reduction of barriers to the international flow of goods and capital. «The IMF was founded to avert worldwide economic depression» (Griffith-Jones, 1972–85, p. 145), one of its officials summed up the goals and objectives of the fund.

The purpose of the fund was defined in the first article of the IMF Agreement, «…To promote international monetary cooperation … To facilitate the expansion and balanced growth of international trade… To promote exchange stability…To assist in the establishment of a multilateral system of payments in respect of current transactions between …». It would be achieved «by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity». Thus the end result was «to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members» (Wash, 1992, p. 2).

However, it should be noted that the adoption (ratification) of the Breton-Woods agreement was no less difficult than its preparation and signing. As we all know, the Soviet Union eventually refused to ratify it. Back in 1943 in Tehran, US President Franklin D. Roosevelt promised Stalin a huge in those days interest-free loan of 6 billion «golden» dollars. Therefore, during and immediately after the Conference, the Soviet Union was set for membership in the IMF and the World Bank. The Kremlin plans were far from true inclusion of the USSR in the international monetary system, since that would require adaptating the realities of Soviet «national economy» to the rules of the market economy (which, of course, was unacceptable). It may even be argued that the Soviet Union was closer and more understandable to the «New Order» proposed by the Nazi Minister W. Funk, rather than the «liberal alternative» of Breton-Woods. But two points were important for the Soviet leaders, «pragmatic» – financial assistance and «ideological» – recognition of the USSR as a great power. But the agreements practically collapsed at once after F. D. Roosevelt's death: President Truman did not trust the USSR and did not intend to provide financial assistance that could go on preparations for a war against the West. This prompted the USSR to abandon ratification of the Breton-Woods Agreements in December of 1945.

However, ratification of the Agreement was not easy in the «key countries» as well – that is, in the United States and the United Kingdom. In particular, US Senator Robert A. Taft argued that poor and unstable countries borrowing from the Fund meant «pouring money down a rat hole», and thus could only be conducted by private banks (if they agreed to take such risks) (Mikesell, March, 1994, p. 68). Many criticised the convertibility of currencies in the Fund, which differed considerably from the principles of convertibility on the free market, and in particular the scarce-currency clause, warning that it could legitimize US trade and currency discrimination. However, the West Wing (with considerable aide from the Treasury) managed to secure positive public opinion, despite the severe resistance of banking and business associations and the conservative wing of the Republican Party.

In Great Britain, the issue of signing the Agreement also caused a great deal of discussion which also (as in the USSR) focused on the problem of obtaining US financial assistance. The British Parliament simply did not want to ratify the Breton-Woods Agreement without a simultaneous US-based loan agreement. The problem of ratification was «solved» only after a loan agreement had been reached (a loan of 3.8 billion USD for a period of 50 years was granted in early 1947).

Based on the spirit rather than the text of the Breton-Woods Agreement, it was expected that the International Monetary Fund would be headed by the ideologist behind it – H. White, but his dubious political affiliations and preferences (and in the end – allegations of espionage in favor of the USSR)[2] cost him the opportunity for such a brilliant continuation of his career. As a result, the United States decided to transferive away the post of head of the IMF to Europeans, focusing on leading the World Bank (which was considered more important at the time). Thus, in fact, a tradition was established, according to which the Managing Director of the Fund was a European, and the President of the World Bank was a United States representative.

As can be seen from this small historical excursus, the IMF was not the only institution created as a part of the international security system (logically the IMF and IBRD are part of the UN family, fulfilling their functions as separate elements of a holistic international security system). However, the issues of national and international security have constantly been raised in the very process of establishing the Fund, creating even at the initial stages of its existence precedents for linking relations with the IMF and concerning the IMF with a wider range of security problems.

Security aspects in relations with the IMF

Despite the importance of cooperation with the IMF, even the first-founding countries did not forget about the priority of national security issues. For instance, after failing to make a swift transition to a convertible pound in 1947, Britain re-

[2] The question of H. White's espionage remained unresolved, because he died of a heart attack (with suspicion of suicide), having failed to give evidence to the Senate commission. Raymond Mikesell, a finance officer who was an economic adviser at the Breton-Woods Conference, believed that «the Soviet Union simply shared [White's] political goals with regard to post-war Germany and he believed that the Soviet leaders would support proposals for the Fund and the Bank. [White] believed that the communist state would be able to operate in a non-discriminatory trade system and adhere to the trade and currency obligations envisaged by its plan.» (Mikesell R. F. The Bretton Woods debates : a memoir / Essays in international finance, no. 192 – International Finance Section, Department of Economics, Princeton University, March 1994, p.57). That is, to a large extent, these relations were based on the old interest of H. White in the Soviet economic system (which he tried to study beforehand, even planning to go to the USSR for this purpose). Nevertheless, the documents of the famous Venona Project (a large-scale US counter-intelligence operation covering the period from 1943 to 1980) confirm his cooperation with the Soviet intelligence (in particular, giving them print circuit boards for the German occupation marks in 1944). Suspicions about H. White arose in 1943, and in 1945, President Truman assured the public that White was suspended from work in the Treasury and the IMF (although he continued serving as IMF Managing Director from the United States until 1947). More information about the «spy case» of H. White can be found in the article: Steil B. «Red White. Why a Founding Father of Postwar Capitalism Spied for the Soviets»// Foreign Affairs, March/April 2013).

frained from devaluation of its currency, despite the pressure from the IMF. The rejection of the IMF's recommendations was so strong that in April 1949 C. F. Cobbold, Bank of England Governor, suggested that the United Kingdom «might consider leaving the IMF» if any attempt was made to put pressure on it by leaking news about the discussion of sterling exchange (James, 1996, p. 95).

Another example is the situation with the Marshall Plan. In Soviet times, we wrote a lot about the Marshall Plan, emphasizing, however, its anti-communist orientation. In fact, it did have an anti-communist orientation – that is, its aim was to restore the economy in order to confront «communist expansion» (including in the form of a half-forgotten now Molotov Plan, which was essentially a forced alternative to the Marshall Plan for many Eastern European countries) (Statement by Molotov, 2 July, 1947, electronic resource). However, from an ideological point of view, many considered its principles if not communist, at least socialist in nature (Ferguson, 27 August, 2007, p. 3). Thus, participation in the Marshall Plan was seen as a foreign policy priority in terms of national security by many countries. But, as the terms of lending under this plan differed from the order agreed in Breton Woods, the IMF Board of Directors decided not to fund the countries that would participate in it. The decision of the IMF exacerbated the financial problems of European countries. Therefore, proposals for creating an alternative institution – a kind of «European IMF» were voiced (James, 1995, pp. 368). However, no country refused to participate in the project due to this issue, as all participants understood the importance implementing the Marshall Plan not only for economic, but also political security. We would like to remind that Ukraine also has the experience of defending its position in relations with the IMF. This, in particular, concerned the Fund's stance on the introduction of national currencies by the countries formed after the collapse of the USSR. The position of the IMF, then expressed by M. G. Spencer in Ukraine, consisted in the need to preserve the «single ruble space» (Vystum, Spencera, 1992, pp. 45–46). As it later turned out, similar recommendations were given to other countries of the former USSR, and the IMF threatened to deny support to those who insisted on the issue of their own currency (Papava, 2001, p. 27). This was, perhaps, an inertial extension of defending the idea proclaimed in the well-known report of President George W. Bush (so-called 'Chicken Kiev' speech), delivered on August 1, 1991 in the Verkhovna Rada of Ukraine, in which he warned against «suicidal nationalism» (Bush, May 23, 2004). But at that time, it was all the more difficult to argue against such recommendations. However, as time showed, the earliest possible introduction of their own currencies was necessary, at the very least because IMF loans could in principle only be credited to the countries with their own currency. Implementation of IMF recommendations could lead to the situation when the IMF loans would not go to us directly, but through Moscow (with all the consequences of such an intermediary). The International Monetary Fund reversed its position only in 1993 – after at first the Baltic countries, and then Ukraine introduced their own currency, avoiding many problems the countries that delayed encountered.

Thus, the recommendations of the IMF (as well as any recommendations in general) need to be taken with a grain of salt, as nobody is immune to making mistakes, especially in matters as complicated as the experts of the fund have to deal with. For example, there is a detailed analysis of the IMF's mistakes regarding reforms in Poland and Russia, as well as in Georgia, made by a well-known British economist, professor at the London School of Economics, St. Gomulka (Gomulka, 1995, pp. 14–19) and former Minister of Economics of Georgia, Professor V. Papava (Papava, 2001, p. 86). It is therefore quite right to comment that, for example, «the increase in the cost of utilities can lead to the development of a revolutionary situation and the beginning of a civil war». Of course, there is no guarantee that events in Ukraine will develop the same as in the Kyrgyz scenario, but there is a certain probability of this, since an irresponsible programme can lead to a number of negative consequences, «starting with a sharp increase in the size of the external debt and ending with the growth of social tension in connection with the unsubstantiated and unreasonable increase in monopoly prices set by the state for energy resources, an increase in fiscal burden, as well as the risk of raising the retirement age» (Gavrilchenko, July 30, 2010).

But the history of the IMF also has examples of a persistent search for mutual understanding when, for example, the Managing Director of the IMF not only visited the Bank of France, but even had his own office there, because the approval (of the monetary policy of the Bank of France) required his prolonged presence in Paris (James, 1996, p.105).

These examples, in our opinion, indicate that the threat to national economic security is not in the absence of cooperation programmes with the IMF (which, in the opinion of some experts, actually blocks the flow of foreign investment and loans), but rather in the absence of real reforms and measures to improve the financial and economic situation in the country. Lack of such programmes can only serve as an indicator of the lack of appropriate government action, as by itself, their absence (which is characteristic of many economically successful countries) does not in any way scare off investors or lenders.

The so-called «IMF loans»

The «Credit» activity of the Fund still raises many questions. To understand the intricacies of our relationship with the IMF, it should be noted that it does not issue loans at all (such term is almost never mentioned in the Agreement[3]). When developing the mechanism of the IMF it was envisaged that the member countries would have a uniform demand for currencies, and therefore their national currencies, which would enter the Fund, would move from one country to another. Thus, these operations would not be «crediting» in the strictest sense. However, in practice the Fund receives requests for the provision of foreign currency mainly from countries with unconverted and weak currencies. As a result, the IMF is forced to provide such popular currencies to member states seemingly «secured» by the appropriate amounts of non-convertible national currencies. Since there is no demand for them, these currencies stay in the Fund until repurchase by their issuing countries. In the documents of the Fund, as a rule, it refers to «financial programmes» and «facilities», or «drawing» – a certain euphemism, which is usually translated as «borrowing» in the context of the IMF's activity, although in reality it is a matter of «pulling out» or «extracting» the required foreign currency from the Fund's reserves (the original name proposed by French experts – *droits de tirage spéciaux*). Technically, it is simply a «swap», that is, the purchase of foreign currency in exchange for the right to own currency (which is simply issued by the corresponding application – a bill of the Ministry of Finance or the central bank of a country that needs external financing of its balance of payments) with the obligation of redemption (which for simplification is called «repayment of loan»). Moreover, freely convertible currency is bought not even from the Fund, but from the member states with a positive balance of payments, while the interest is paid to the Fund (for services rendered).

However, whatever these mechanisms are called, they give the country an opportunity to receive additional financial resources in the form of foreign currency for a certain period of time, which is equivalent to obtaining an international loan. That is why many commentators compare the IMF with the bank, which, accordingly, pays attention to the possibility of repayment of borrowed money and therefore worries about the solvency of the borrower (hence, it seems, the tough requirements for actions of the borrower, which are fixed in the bilateral

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[3] As an exception, it may be recalled that Article VII states that, if necessary, a Member may provide its currency to the Fund on loan, or the Fund may take the currency necessary for it on a loan from another party, but this case refers to the right of the Fund of acquiring necessary borrowed funding. In addition, in 1999, due to the negative impact of the global financial crisis, even countries with a stable balance of payments opened the so-called «Contingent credit lines» in case of contingency situations, but this instance was also about getting foreign currency through «drawing» it from the reserves of the IMF. (By the way, this credit line has never been activated and closed in 2003).

memorandum of understanding). This is also not quite true, since the International Monetary Fund is closer to the «International Monetary Union» or, more precisely, the «International Mutual Fund». As a result, relations between the IMF, the «lenders» and the «borrowers» are based on a completely different basis than the relations with international banks. In reality, the first priority of the Fund is not the profit from lending operations or avoiding the risk of non-repayment of the loan (as in the case of a bank). The IMF has repeatedly debited the debt of both separate countries (in particular, Liberia's debt was written off in 2010 (IMF Survey, June 29, 2010)) and whole groups of countries (in particular, under the Heavily Indebted Poor Countries Initiative) (Electronic resource, n. d.; electronic resource, 2000). With regard to this initiative, a member country must not only be poor, but also have arrears over 150% of exports and more than 250% of budget expenditures per year. (At the time of the launch of the program 43 countries met this criterion) (Electronic resource, February, 2008, p. 2). We can recall the active position of the IMF on the need for integrated (with the EU) debt relief for Greece (Electronic resource, May 25, 2016). Incidentally, the IMF usually does not simply write off debt on its own loans, but also encourages other IFIs and private banks to do so; in the case of Liberia, for example, 6.4 billion dollars were written off, while the IMF debt amounted to less than 0.7 billion dollars).

Of course, the situation with debt cancellation is not particularly attractive, however, there is no such thing as a default on debts to the IMF. (Recall that technically there is no, as the country has transferred its own currency equivalent to the Fund and simply committed to buy it back, and «breaking a deal» is rather different from «owing debt on a loan»). Clearly, we point out these legal technicalities not to encourage failures to perform the obligations to the IMF; we merely wish to reiterate that even after the IMF debts were written off the Fund persisted taking care of the financial condition of careless debtors, since it pursued other objectives than commercial banks do. The IMF, like other international financial organizations, believes that debt reduction contributes to sustainable growth only if it stabilizes various theoretical macroeconomic indicators. Meanwhile various non-governmental organizations (NGOs) support the efforts to reduce debt for the sake of social sustainability and evaluate debt-related initiatives based on their ability to contribute to the Millennium Development Goals (MDGs) (Canel, Fall 2009, pp. 8).

Turning to priorities, we must note that the issue that staff reports to the Board of Directors and the Board of Governors on is achieving the objectives of the Fund (see Art. 1 of the Agreement). However, some authors (Dub, pp. 291–292) argue that the experience of many countries (among which some «new dragons» and «lions» of the global economy, such as Indonesia, Thailand, Argentina, Brazil, Mexico, or states quite successful within the EU – Latvia and Hungary), which used IMF loans, shows that the stringent requirements put forward by the IMF do not take into account the specifics of the recipient countries' development. For unknown reasons, the list of such countries includes «new dragons» and «lions» of the global economy: Indonesia, Thailand, Argentina, Brazil, Mexico, or states quite successful within the EU – Latvia and Hungary. Although «losers», such as Rwanda, Peru or Argentina, are also mentioned. The latter is again relegated to a group of economic «anomalies» (February 1, 2014, The Economist, p. 39), as if confirming the widespread view of the «Argentine paradox», which the Nobel laureate S. Kuznets summed up in his famous quote: «There are four types of countries in the world: developed countries, undeveloped countries, Japan and Argentina» (Saiegh, June 1996, p. 3). At the same time they note the so-called «Washington Consensus», which is sometimes considered a pre-made decision on how we should implement economic reforms. However, the «Washington Consensus» is not the new «Protocols of the Elders of Zion», but rather ideas put forward by a well-known American economist Professor John Williamson, who considered adhering to certain principles necessary in the process of reforming the economies of emerging markets. These principles include: fiscal discipline, redistribution of budget expenditures in order to improve income distribution (including primary health care and education), a tax reform (based on lowering rates and broadening tax base), trade liberalization and inflow of foreign direct investment, business deregulation, privatization, etc. The author of the «consensus» does not think that it directly relates to neo-liberalism and suggests, in each individual case, to discuss the possibility of using the principles mentioned by him point by point (Williamson, August 2000, pp. 252; 257). As to the effectiveness of such negotiations, one can recall that when H. Köhler assumed his responsibilities as the IMF's Managing Director, he stated the need to mitigate requirements to the borrowers (based on his experience with the IMF missions), and also acknowledged that the Foundation still had much to learn. Meanwhile in 2009, at the G-20 meeting, British prime minister G. Brown stated, «Old Washington Consesus is over» (Yago, Asai, Itoh, 2015, p. 3). However, it seems that many researchers still see it as one of the «bourgeois theories», which in Soviet times they could fight for decades with definite advancements in their careers, but not in proving their cause. All this despite the fact that it would be more productive to study the theories before criticizing them.

Ownership over the IMF co-operation programs

This article is not devoted to various political and economic approaches to solving problems of sustainable development and financial stability. Therefore, we would like to highlight that the objective of the IMF (as we've mentioned before) is to facilitate correcting imbalances in the BoP without the use of measures detrimental to national or international welfare.

Admittedly, the IMF has only limited capacity to address social protection issues. Social protection has never been a major part of the Fund's goals. Usually it «delegated» this problem to other international institutions, for example the World Bank. Historically, therefore, the IMF's participation in social affairs was rather limited. However, in the aftermath of the 2008–09 global crisis the IMF has intensified its focus on social protection. In 2010, then Managing Director Dominique Strauss-Kahn addressed the participants of the Second Congress of the International Trade Union Confederation in Vancouver (and then, spoke one-on-one with leading trade union leaders). He noted that even if trade unions and the IMF rarely agreed on the economic strategy adopted by governments, the Fund highly appreciated trade unions' proposals and tried to better ensure social security (International Trade Union Confederation, June 23, 2010, electronic resource). It was then that he put forward the idea of «social conditionality» – specific measures to protect the most vulnerable from the tough medicine that is often needed (Strauss-Kahn, July 6, 2010, electronic resource) – designed to help countries develop or support the social protection network when implementing programs supported by the IMF.

Analyzing this situation, the IMF's Independent Evaluation Office tries to solve the question: «Was the IMF's role in social protection clear to staff?» As the results of the survey show, the Fund's staff did not perceive the instructions regarding work related to social protection as precise. Employees generally thought that this work should be selective and «the staff understood the increased priority being given to social protection issues in recent years» (The IMF and Social Protection, July 5, 2017, p. 7).

The current director of the Fund, C. Lagarde brought the issue to the forefront even more, extending it to «emerging macro-critical issues» that were previously outside the traditional competences of the IMF, in particular – social inequality. In her speech in 2012, she noted that «better social protection» is one way in which the IMF can contribute to «sustainable development» (Lagarde, June 12, 2015, electronic resource). Since spring 2014, the Global Policy Agenda, approved by the IMF Managing Director twice a year, envisages the commitment of the Fund to provide Member States with policy advice on «macro-critical structural issues». In July 2016, in an interview about the start of the second term of her work at the head of the IMF, C. Lagarde expressed her hopes for the continued and deepening attention to social problems. She acknowledged that the Fund's recommendations sometimes displease, as they are rigid, adding, «But I would like the IMF to have that human face» (The Financial Times, July 13, 2016, electronic resource).

Thus, if the experts believe measures provided by the Memorandum of Understanding with the IMF to pose a threat to the welfare of the country (and especially the world) and not take into account the threats posed by the growth of social problems, the experts should point out their harmful nature. Moreover, the scientists should do so while dealing with both IMF experts (emphasizing the need to comply with the «general line»), and with their own governments. Additionally, correction of programmes should be asked of the governments, not the

IMF. Here we see one more problem of relations with the IMF that for some reason does not usually get attention of politicians. Measures under the Memorandum are indeed often criticized by both the political opposition and independent experts, but this ignores one important fact – the IMF Memorandum may contain only the measures envisaged by the Government's economic program (often approved by the parliament), or, accordingly, the principles of monetary policy of the central bank of the country. The memorandums only seem to be «imposed by Washington» because the national government for some reason adds measures not provided for by its program, and sometimes and directly contradicting the official promises. In our case, as an example we may name the increase of utility tariffs or energy charges or the implementation of agrarian and pension reform (the nature, directions and timing of which are not defined by the government program and not approved by the Verkhovna Rada). However, this entirely depends on the political culture of the country in question. The author has repeatedly mentioned the example of Portugal. There, in 2011, its three lenders (including the IMF) coordinated economic measures (supposed to stabilize the situation in the country) not only with the government and the government majority in the parliament, but even with the political opposition (to ensure its implementation). In the end, the proposals that were accepted were even more rigorous than the ones the international lenders originally agreed upon. Perhaps this is why within two years Portugal was the first country in the «southern periphery» to successfully exit the international financial assistance program. This is what we call «Program Ownership». Back in 1959, then IMF Managing Director Per Yatson talking about the program of cooperation with Spain, explained that «such programs can only succeed if there is the will to succeed in the countries themselves». He added that the Fund never imposes conditions on anyone, and the country's government must independently conclude that the measures envisaged are in the interests of its country (Khan, Sharma, 2001, September, p. 31). This issue has been of particular concern to the IMF since the early 2000s, as experience and special studies had shown that the main reason for failure of the IMF-approved economic reform programs was the reluctance of national governments to implement them thoroughly. In this context, «national ownership» is defined as *a willing assumption of responsibility for an agreed program of policies in a borrowing country that have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country's own interest.* (Boughton, September 2003, p. 3). Professor Jacques Polak, who has worked for the IMF for many years, notes on this subject, «With or without the help of the stabilization program supported by the Fund, a country may take all the right measures: cut the budget deficit, constrain credit, adopt a realistic exchange rate, liberalize imports, deregulate domestic financial markets» (Polak, September 1991, p. 46). Thus, the programs developed jointly with the IMF, should be seen as such – developed jointly. The chief economist of the fund and director of its research unit, Kenneth Rogoff, in this regard, writes, «It is also likely, however, that the much-maligned IMF-supported programmes in Mexico, Asia and elsewhere in the 1990s were not nearly so incompetently designed as some have asserted. Certainly, to keep bail-out concerns on the back burner, the IMF needs to ensure that its programmes continue to be well designed and based on sound fundamentals. Politics in both donor and borrower countries will always come into play, but it cannot be allowed casually to override clear-headed judgments about sustainability» (Rogoff, August 3, p. 64).

On the other hand, there are many examples where the governments of individual countries have been quite active in arguing and eventually defending their vision in a discussion with fund specialists. Another thing is that in the end this was not always to the benefit of the country. For example, the introduction of a currency board system in Argentina, which in a few years led to the collapse of the financial system of the country, was carried out at the insistence of the Minister of Economy Cavallo, despite largely skeptical remarks by the international experts. (Later, after he was already dismissed, D. Cavallo was even arrested on charges of «failure in duties of a civil servant»; concerning the lack of proper dollar revenues for Argentina, but the trial never happened). Contrarily Belize thanked the IMF for the advice of its experts, however with the words of its prime minister made it clear that Belize had many opportunities to write its own programs, and assumed that its current efforts were working. And indeed, the government was able to negotiate restructuring with holders of its debt, even with reduced interest rates on the bonds (Belize Prime Minister Rejects IMF Recommnedations, June 24, 2017, electronic resource).

It is clear that only the government based on state positions and the awareness of the need to protect national interests and national security can assume such responsibility. On the other hand, the corrupt politicians will avoid such responsibility, but instead, will be happy to simulate agreement on measures that are acceptable to IMF experts with the sole aim of obtaining additional financial resources.

The subsequent fate of these resources also depends little on the IMF, since it can track (and to a certain extent guarantee) only the receipt of the corresponding funds to the accounts of the government or a central bank. Incidentally, in the Breton Woods, the Soviet delegation strongly suggested not to publish and make confidential reports on the balance of payments and all correspondence between the IMF and its members. This proposal, however, was rejected (Minutes of Meeting of Commission I, July 19, 1944, pp. 27–28, electronic resource), so the Fund provides maximum transparency, including through the publication of Memoranda of Understanding with the governments of the member states (which is not always done by the governments themselves).

Targeted use can only be monitored by the relevant national government and parliamentary oversight bodies (the Ministry of Finance, the State Audit Office, the Accounting Chamber, etc.). «IMF funds» merge into the budget or official currency reserves with funds coming from other sources, and therefore to say that the IMF tranche is not used for agreed purposes or embezzled is not entirely correct. Misuse or embezzling can occur with budget (or reserve) funds as a whole. In democratic society transparency is a hindrance to such phenomena; through it society tracks not only the formation and approval of the budget, but also the use of budgetary funds. However, there are always areas of funding related to national security that are not subject to the general disclosure procedure. This also applies to currency reserves. Currency interventions are sometimes *demonstrational* (in order to dissuade speculators), and sometimes, conversely, are carried out *confidentially* (even through other «trust» financial institutions) in order to prevent panic in the market. Obviously, independent parliamentary control bodies should also monitor such expenditures. Here again there are questions to the government and the degree of public confidence in it. Unfortunately, the problem having honest civil servants in the government cannot be solved by increasing the wages with the purpose of eliminating temptation to embezzle from state property. Ironically, this idea belongs to the «intellectual arsenal» of corrupt officials: they cannot believe that an honest person would not steal even if they were paid extra for it. Therefore, high salaries for civil servants can and should be provided only after getting honest people for government jobs, not vice versa. The recipe for such a «re-staffing» is very simple (all you need to do is entrust the process one honest executor at the highest level) and tested in other countries (Singapore, the USA, Sweden, Japan, etc.).

It is very important and useful (especially in conditions of insufficiently high trust in the authorities and the professionalism of its representatives) to involve independent (non-governmental) experts from different associations and brain trusts in the process of relations with the International Monetary Fund. In Ukraine, such cooperation is practically non-existent (and that is why the foreign non-governmental organizations actively respond to the problems arising from the IMF arrangements) (Women's International League for Peace and Freedom, May 29, 2017, electronic resource). Moreover, even MPs cannot get texts of the Memorandum of Cooperation with the IMF, let alone start broad discussion of this project. From time to time, there are even complaints about the fact that loan agreements with an international organization should be approved by the country's parliament. It should, however, be borne in mind that the mechanism for obtaining financial assistance (which is technically not a loan, but simply a transaction for the exchange of national currency against a foreign with a repurchase obligation) is clearly stated in the third section of Article 5 of the IMF Agreement, which the Verkhovna Rada of Ukraine actually already ratified. On the other hand, this does not mean that the IMF deals only with the government and the central bank, as stated in the first part of the fifth article of the Agreement. In fact, this provision applies only to IMF financial operations, but not to the Fund's consultancy and other activities. It is enough to look at the IMF's handbook on cooperation with member states (issued by the Office of Independent Evaluation at the Board of Directors of the Fund) to see parliamentarians, NGOs, the press and businesses all included as desirable partners (The IMF's Interactions with Its Member Countries, December 29, 2008, p. 2). It's another thing entirely, that the

IMF staff (according to the same Independent Evaluation Office) does not in practice show a particular desire for such contacts (in many cases, following the wishes of the hardly democratic governments in question) (Staff Guidelines on IMF Staff Engagement with Civil Society Organizations; 2015, p. 2, electronic resource). This is even though cooperation with civil society organizations is strongly recommended both for members of special missions and for permanent members of the Fund in member countries.

Nevertheless, such work does occur. For example, just in February 2017, a special seminar was held in Washington for representatives of civil society organizations from the countries of the Middle East and North Africa. Also the new president of Ghana, Nana Akufo-Addo, who was sworn in in early January 2017, announced his intention to terminate an agreement with the IMF (for mere 1 billion USD), which was actively criticized by the civil society of his country (Ghana: political costs of structural adjustment; January 31, 2017). Moreover, in order to avoid anything like this in Uganda, that same month, IMF Managing Director Christine Lagarde met with civil society activists there (Lagarde, 2 February 2017, electronic resource). However, as we all know, Ukraine is not Russia and, apparently, not Africa as well.

Ukraine: not a «freeloader», but a partner

It is equally important to remeber that Ukraine is not just a borrower of the IMF, but also its participant. However, the «voting right» we have for the most part (ie, excluding annual fees) is direct, but exercised through the director of our group of countries (the constituency). For a long time our group was headed by the Netherlands (as the country with the largest number of votes). It cannot be denied that the Dutch have done a lot to teach us about creating the monetary and financial system and building relations with the IMF. However, the reasons to consider such patronage ideal dwindled over the years, which provoked notions of finding a more active and understanding leader. It is impossible to do this at any moment, but in principle there is no rigid «rapprochement system» in the IMF, and from time to time there are opportunities to change the «residence». Ukraine had such opportunities as well. The most recent one concerned merging two groups (Dutch and Belgian). Ukraine agreed to stay in its current group (even holding a group meeting in Kyiv in the summer of 2016). Countries such as Belarus, Hungary, Slovakia, Slovenia, Turkey or the Czech Republic, meanwhile, have created a new group headed by Austria – a prominent leader of the Central European Economic Cooperation. The question of whether Austria would be a better advocate for Ukraine in the IMF, especially now that the group is headed by an executive director from Belgium (which alternates with the Netherlands every four years now) – is only one aspect of the problem. The second aspect concerns the candidates for the postition from Ukraine. Traditionally, it was the position of Alternate Executive Director, of which there are now two (and all things considered the «first» deputy will always be a representative of the Netherlands (and in four years – Belgium). At first glance, this reduces the ability to influence the position of the group's director. However, looking closer, it becomes clear that even if our representative were the only deputy alternate executive director, they were unlikely to have a great influence, given the specific requirements for the candidates. We cannot even consider this position a sinecure: unlike other countries, we always appointed those who had little influence in the financial arena (within Ukraine at least), and those who, upon returning home, wouldn't or couldn't occupy the corresponding high positions, using the accumulated experience, knowledge and connections. (This was clearly demonstrated in the case of the former representative of Ukraine in the Fund, Prof. O. Petryk: for the first time, this post was given to a well-known specialist, but brazenly recalled him before the end of his term, without finding him a position in Kiev worthy of his expertise, and without finding him a worthy replacement in Washington).

Another problem relates to the range of issues that we are interested in the IMF. Traditionally, it relates to Ukraine getting financial assistance and the implementation of the terms of cooperation. The official Kiev is not interested in issues of solving the debt problem of developing countries, overcoming the financial crisis in EU countries or reforming the world monetary system. Although actively participating in discussions of these issues would, if not solve them, at least help find allies on issues that are vital to Ukraine's economy.

As you know, the votes in IMF (and IBRD) governing bodies are not distributed equally (as in other organizations of the UN family), but according to financial quotas (which now stands at 16.46% for the US). This creates the possibility of an «effective veto» – that is, blocking particularly important decisions that require a qualified majority of 85% of the vote. Moreover, the technical characteristics of the distribution of votes actually give the United States 22% of the votes in the Board of Directors and 25% on the Board of Governors (Leech, p. 20, electronic resource). Therefore, the United States is indeed a powerful party able to substantially influence their policies. This does not mean that the IMF is completely obeys direct instructions from the White House or the US Treasury, since the EU or the BRICS also have the effective veto, they just need to work out a common position to enforce it, while the United States can do that on their own. Trump's administration is now actively trying to use such opportunities, exerting pressure on the IMF leadership to reduce its opposition to the protectionist policy (which Trump is partial to) and, conversely, to strengthen its vigilance in countering currency exchange rate manipulation (of which the Americans suspect China). However, this last demand is not new, as in 2010, US Treasury Secretary T. Geithner called on the Fund's management to ensure the security of the global financial system, in particular, to notify the public of actions by those countries that artificially lower their exchange rates in order to accumulate excessive money reserves (The IMF and World Financial System's Security, 10 October, 2010). The Secretary said, «Specifically, the IMF must strengthen its surveillance of exchange-rate policies and reserve accumulation practices. We recognize that precautionary reserve accumulation is appropriate to a point and may well have helped several emerging market economies cope with the adverse effects of the recent global financial crisis. However, excess reserve accumulation on a global scale is leading to serious distortions in the international monetary and financial system, and is inhibiting the international adjustment process. We look forward to the IMF's upcoming discussion of reserve adequacy and urge the development of new reserve metrics. An upgrade of the analytical tools for evaluating reserve holdings is long overdue» (Geithner, October 9, 2010, electronic resource). However, the search for solution to this problem (which is also relevant for Ukraine) has scarcely progressed in recent years. Evidently, sometimes even the United States cannot solve its problems in relations with the Fund effortlessly.

Moreover, Washington is not satisfied with the IMF's involvement in expensive financial recovery programs in Greece, but contrarily considers it necessary to continue supporting Ukraine (Donnan, April 17, 2017). Therefore, achieving understanding with the US is an important aspect of our relations with the IMF, including in the context of our own economic security issues.

In our opinion, in order to better understand the logic of the Fund's actions and to change the attitude of its participants towards itself and its problems, it is necessary to participate in the discussion and decision-making on issues that are not directly related to Ukraine more actively. We need this not only to be able to rely on someone's attention and understanding, but also to truly feel part of the global economy with its problems, preferences and priorities. Only an active approach can get the necessary attention from the organization, which deals daily with problems around the world. In addition, we must remember that certain foreign states can use their diplomatic capabilities to create financial threats to other countries, for example by blocking membership in the IMF or negotiations with the Fund (Księżopolski, 2011, p. 203). We have already experienced this with the so-called «Yanukovych's loan» (Gubenko, 17 December, 2015, electronic resource) and should call it a lesson learned.

Of course, a country whose quota in the Fund is less than half a percentage and which does not have its own executive director struggles to be active in the IMF. However, regarding this we would like to remind of a story from discussions of the Breton-Woods institutions. Reportedly, J. M. Keynes passionately spoke of the United States' «cowboy attitude and nouveau tactics», after which the British ambassador to the United States, Lord Halifax, handed him a small piece of paper with remark, «It's true, the Americans have all the money-bags but we have all the brains» (Horst, September 19, 2002, electronic resource). Therefore, Ukraine could rely on more than just the power of money. In organizational terms, for this purpose it is also necessary to use the Ukrainians who work in the IMF apparatus more actively – both official representatives of Ukraine and independent experts. Unfortunately, this «arsenal» remains virtually unused (unlike other countries that not only enjoy such opportunities, but actively support the «infiltration» of their citizens into various international organizations (including the IMF).

Conclusions

Our analysis allows us to draw some conclusions and propose recommendations aimed at increasing the effectiveness of our relations with the International Monetary Fund in order to increase the level of national economic security. The main conclusion, in our opinion, is that (i) the International Monetary Fund serves as an important element of both international and national economic security, and therefore (ii) the issue of economic security, in its comprehensive sense, must constantly remain within the framework of relations with the IMF.

Ukraine in its relations with the IMF shouldn't blindly follow the recommendations of the actually trained experts of this organization, but rather propose effective reform measures that would provide for solving a complex of economic problems. These problems include: a) financial and macroeconomic stabilization (IMF's formal objectives); b) ensuring the prospects for economic growth (program objectives of the government); and (c) guaranteeing Ukraine's economic security (constitutional obligation of the President and other bodies of state power). This, of course, calls for a coordinated development of relations with the IMF, which will require withdrawal from the narrow-minded (when the negotiations are focused on the Ministry of Finance and the National Bank), to the nation-wide approach. The latter happens when the Ministry of Foreign Affairs, parliamentarians, trade unions, and relevant civil society organizations takes part in the negotiations and, in particular, their preparation; and the National Security and Defense Council approve the directives for conducting such negotiations and the strategy of relations with the IMF.

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