IMF Violates IMF Rules, to Continue Ukraine Bailouts

By Eric Zuesse
Global Research, June 22, 2015

Region: Russia and FSU
Theme: Global Economy
In-depth Report: UKRAINE REPORT

The IMF, whose bailout operations are absorbed by the taxpayers in the member countries whenever a particular bailed-out nation defaults, announced on Friday, June 19th, that it will "continue to support Ukraine through its Lending-into-Arrears Policy even in the event that a negotiated agreement with creditors in line with the program cannot be reached in a timely manner." Though this new "Lending-into-Arrears" policy violates two IMF rules, it was justified by the IMF's Managing Director Christine Lagarde on the basis of the Ukrainian government's "continued efforts to reach a collaborative agreement with all creditors."

In other words: a statement by Ukraine's government that it wants to reach an agreement with its private creditors is being used by the IMF as if it were an excuse to extend into the indefinite future the IMF's continued taxpayer-guaranteed financing of ('lending' to) the Ukrainian government, despite the fact that the IMF is violating two of the IMF's own most-basic rules restricting its lending-authority — these rules are lending-restrictions whose purpose was to reduce the riskiness of the IMF's lending, and so to minimize the amount that the IMF will be taking from taxpayers to fund its losses:

1. The IMF does not lend to nations at war — but Ukraine continues being at war against its former Donbass region despite the Minsk II ceasefire agreement; ceasefire violations, especially by the Ukrainian side, continue regularly.
2. The IMF does not lend to nations that are likely to default — but every independent source categorizes Ukraine as being virtually certain to default, and the only actual question regarding Ukraine is: when? The IMF's answer: we'll keep lending, building Ukraine's public debt even higher, until our aim is achieved, and then we won't — and that's when the default will occur — the default will happen when we decide it will happen. It will happen when we will stop lying and saying that it won't happen.

The reasons for Ukraine's actual insolvency are obvious. As John Helmer reported on 3 September 2014, "of the $3.2 billion disbursed to the Ukrainian treasury by the IMF at the start of May [in order to finance the war], $3.1 billion had disappeared offshore by the middle of August. The role of the leading Ukrainian banks, and of the Kiev officials allied with them, in arranging this was reported here." His "here" linked to his earlier report, "Stress Test for IMF in Ukraine — Igor Kolomoysky's PrivateBank Is the Biggest Beneficiary of the IMF's Emergency Liquidity Assistance," which article of his had also noted that, "According to Gerry Rice …, the spokesman for the IMF's managing director, Christine Lagarde …, there's no telling how much of the IMF payments will be transferred to the Ukrainian banks." In fact, "the NBU [National Bank of Ukraine, their central bank] said it refuses to disclose what liquidity assistance it has been paying to Privatbank because 'information on banks or customers, collected during banking supervision, is a bank secret'."

That earlier report from Helmer, in turn, linked to Helmer's prior "Dniepropetrovsk Governor Igor Kolomoysky to Get IMF Bailout for PrivateBank," which had opened: "The International Monetary Fund (IMF) is preparing to release Privatbank, the largest commercial bank in Ukraine, from independent tests of its solvency and capital adequacy, and allow a bailout of the bank with Ukrainian public funds, backed by the IMF. The Ukraine mission of the IMF has also revealed this week that it is allowing Igor Kolomoisky …, the control shareholder of Privatbank, to direct his own audit and stress test of the bank. This is despite independent evidence of large related-party lending in which the bank has been engaged; and despite judgements recently issued in the UK courts that Kolomoisky presents evidence that is 'false or materially incorrect'."

I had previously reported about Kolomoysky, on 18 May 2014, which was two weeks after hundreds of opponents of the overthrow of Ukraine's democratically elected President in February 2014 were burned alive, shot, and clubbed to death, in and around Odessa's Trade Unions Building, and I headlined, "The Key Man Behind the May 2nd Odessa Ukraine Trade Unions Building Massacre: His Many Connections to the White House." Kolomoysky had largely funded the U.S.-supported massacre in Odessa.

Moreover, as the Helmer report on 3 September 2014 (the one that I linked to) noted also: "Christine Lagarde (4), managing director of the Fund, is in other trouble. She is under investigation for a €400 million French government heist several years ago. So far she hasn't been obliged to make public her alibi."

Consequently, the IMF's rules are highly flexible. Those rules actually became even more flexible soon after the U.S. Administration of President Barack Obama succeeded at overthrowing in February 2014 Ukraine's President Viktor Yanukovych. On 23 June 2014, Brett House at QZ headlined, "A great new way for the IMF to help debt-laden countries without forcing them to default," and he reported that, "The International Monetary Fund (IMF) is considering a big shift in its lending rules." it would permit the IMF to allow "reprofiling instead of restructuring" for countries that the IMF is determined to keep going. "Creditors would be asked to defer or 'reprofile' their debt-service payments for a number of years, in the expectation that the country's adjustment program would enable it to return to growth and pick up these payments at a later date." (A subsequent IMF studyshowed that almost invariably, such an "expectation" turns out to have been wrong; yet the IMF continues with it.

That type of "expectation" is the usual basis for "fiscal consolidation," otherwise known as "austerity" economics.) This change would enable the IMF to continue lending to the country, so that IMF member-nation taxpayers would share the burden along with private investors. Then, after default happens, those private investors will, essentially, be handed any Ukrainian public asset that wouldn't already have been sold off in order to help fund Ukraine's war against its former Donbass region. The defaulted government bonds become instead shares of stock in Ukrainian government assets that are sold off at pennies on the dollar. Investors are protected, while taxpayers get scalped. (Mr. House supported the change, using this argument: "The beauty of an IMF-supported debt reprofiling is that it takes the final assessment of sustainability away from the IMF staff and hangs it on the ability of a country's reformers to convince financial markets that their public finances are sound. That's a change worth making." He favored anything that expedites privatizing government assets. However, Christine Lagarde's statement that was now being issued, a year later, on June 19th, showed what a sham that argument was, because "the ability of" this "country's 'reformers' to convince financial markets that their public finances are sound" turned out to be of no real concern to the IMF: Lagarde now says, "This is important since this means that the Fund will be able to continue to support Ukraine through its Lending-into-Arrears Policy even in the event that a negotiated agreement with creditors in line with the program cannot be reached in a timely manner." The public agents for the aristocracy are all fakes. That's why they got their jobs — to carry out con-jobs.)

Here is an excellent discussion of the way the economics of this actually works. It's by Michael Hudson, who was one of only 29 economists in the world who had predicted, years in advance, the crash of 2008, and who accurately explained the crash even before it occurred. He discusses there the IMF's duplicity by their violating their own lending-rules in order to enable aristocrats to rip off Ukrainian state assets at bottom dollar. These mega-scams are not rocket science; he presents the matter in clear terms.

So: the IMF's rules are, indeed, highly flexible, and one must look to whom the controlling force in the IMF is, in order to understand the IMF's bailouts, not just in Greece but in Ukraine and elsewhere. That controlling force is the President of the United States. The IMF's Managing Director always receives his or her appointment only with the approval of the U.S. President. That's the way the IMF was set up: the President has a veto, at the IMF, just as he does at Congress. And this is the reason why the IMF has always served as a handmaiden to U.S. foreign policies and priorities.

Here is a highly informative video about how U.S. President Barack Obama installed the present regime in Ukraine. Subsequent confirmatory evidence about how the coup was done is presented in text with links to sources, here and here and here. Obviously, therefore, in order for Ms. Lagarde to be able to keep her job (and its retirement perks), she must continue to please her real boss. And, in turn, Obama's real boss is the U.S. aristocracy, Wall Street's megabanks and the controlling interests in America's international mega-corporations.

Those are some of the reasons why the founder of the 'private CIA' firm Stratfor said that the overthrow of Viktor Yanukovych in Kiev in February 2014 had been "the most blatant coup in history."

The massacre by Kolomoysky and the U.S.-installed Ukrainian regime, on 2 May 2014, was likewise in furtherance of that longstanding U.S. Government objective, of conquering Russia.

This is the reason why the IMF has by now made unequivocally clear that, no matter how bad things get in Ukraine, its government will continue to be propped up by the West, unless and until its government violates the will of the U.S. President, as reflected and supported (whenever necessary) by the U.S. Congress.

On June 12th, Christine Lagarde issued to the press astatement: "The Ukrainian authorities have embarked on an ambitious economic program for 2015-18 aiming at deep-reaching macroeconomic adjustment and structural reforms. It includes a substantial fiscal consolidation." The IMF always 'recommends' what it calls "fiscal consolidation."

That phrase "fiscal consolidation" is economist-speak for what is commonly called "austerity," or cuts to a government's spending for infrastructure, public health, income redistribution downward, progressive taxation-rates, and help for the poor. The IMF already knew that what they call "fiscal consolidation" flops in every way, unless the goal is simply to increase the maldistribution of wealth (so that wealth will flow from the many to the extremely few. A massive empirical analysis of the world's economic data going back decades and published by the IMF in January 2013 had already shown that, "We find that forecasters [including the IMF's] significantly underestimated the increase in unemployment and the decline in private consumption and investment associated with fiscal consolidation." Since this finding contradicted standard IMF policy, the IMF's management commissioned another study, by different ones of its empirical economists, and the resulting report was published just this month, June 2015, and it not only reconfirms the earlier one, but it goes even farther, by asserting that:

> Earlier IMF work has shown that income inequality matters for growth and its sustainability. Our analysis suggests that the income distribution itself matters for growth as well. Specifically, if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth.

This finding is the exact opposite of IMF policy (such as regarding both Greece and Ukraine).

In other words: the West, led by the U.S. government, is committed to economic policies that redistribute wealth from the many poor to the few rich, regardless of the empirically proven falseness of the underlying theory that weath trickles down instead of percolates up. Any politician who so much as merely hints at trickle-down as being a 'justification' for his policies is nothing more than a liar for hire — a peddler of the worst, for the worst (such as for the people who impose upon the IMF leaders whose policies are exactly contradictory to the findings even by the IMF's own empirical economists).

Whoever controls the West, and especially the U.S. federal government, pursues these policies — wealth-redistribution from the many poor to the few rich — regardless of what the empirical data show, and regardless of the rhetoric of political leaders in 'democratic' countries (such as the United States) that "reducing inequality" of both wealth and income is a goal (of the U.S. government). It's not a goal; to the exact contrary: the enormous loading up on debt by the U.S. Treasury and U.S. Federal Reserve and ultimately by U.S. taxpayers, for the benefit of Wall Street and their counter-parties and the international corporations they control, is part of the U.S. government's plan; it's a feature, not a bug, of our federal government; and such debt-buildup even finances things like the ethnic cleansing that Ukraine is perpetrating against its former Donbass region to get rid of the residents there, 90%+ of the voters there having voted for the man whom Obama overthrew and replaced.

U.S. foreign policy is not in the interests of the American public. (The State Department aren't. The 'Defense' Department aren't. The CIA aren't.) It's a private matter, controlled by the aristocrats who, as a result of their private deals, place their 'public servants' in office, in their 'democracy,' dictating to the entire world (excepting perhaps Russia, China, and the other BRICS countries).

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Eric Zuesse

About the author:

Investigative historian Eric Zuesse is the author, most recently, of They're Not Even Close: The Democratic vs. Republican Economic Records, 1910-2010, and of CHRIST'S VENTRILOQUISTS: The Event that Created Christianity.