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The IMF, the EU and the Sovereign Borrower: the Case of Hungary 2008-2010

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SUMMARY

There have been intensive debates in Hungarian public life on the ways of regaining economic sovereignty and enlarge the room of manoeuvre of the national government vis-à-vis international financial institutions. The paper addresses the concepts of sovereignty and of fiscal room of manoeuvre of a (new) EU member state, and the nature of sovereign debtors' dependence on foreign finance in the post-2008 financial context. The author concludes that contrary to wide spread beliefs, nation states do have options regarding relations to supranational and international bodies, yet the preconditions of successful manoeuvring are hard to attain.
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Motto:

"Interdependence has developed to such a degree that all EU member states – the strong and the weak, the virtuous and the sinners – have lost their full economic, and even political sovereignty by now.
Fmr Finance Minister Tommasso Padoa-Schioppa

„Hungary will not "break its back" to reduce its budget deficit to 2.8% of GDP in 2011 just to please a few financial experts in distant offices."
National Economy Minister György Matolcsy

INTRODUCTION

In autumn of 2008, amid the turmoil in international financial markets, the Hungarian government at that time decided to turn to international institutions for financial support; first to the European Union (EU), and to the International Monetary Fund (IMF or Fund) afterwards. The requests were accepted, and the ensued massive loan of 20 billion EUR saved the country from a potential sovereign insolvency.

If a country is forced to borrow from an international financial institution (IFI), it is an embarrassment for any country as the Fund is a lender of last resort. Before this event happened, few would have questioned whether capital market players would accept an EU member as a bankable risk. Ex post, particularly after the Greek events in early 2010, sovereign default in Europe does not sound unthinkable. Let us take the following fact: in the autumn of 2010 the yields of ten-year bonds issued, say, by Ireland and Portugal were as high as 6 per cent, while Italy's yield being below 4 per cent, Germany's less than 3 per cent a year – all that prove in the past few months the investors have become able to differentiate among European county risks.

Still, back in 2008 the events did come as a surprise: Hungary had been looked at as a rather successful transition country with an emerging economy for a long time.

In order to understand the case, we will look first at the events themselves, then at the whys and hows, and finally we will summarize the lessons learned from this and other similar sovereign borrower's case.

THE TRAIN OF EVENTS LEADING TO A GOVERNMENT PANIC

The events evolved rather fast. The currency (forint) sharply depreciated in September and October of 2008; capital market players lost their appetite for Hungarian sovereign debts: for weeks, the agency of the Hungarian treasury (AKK) proved unable to sell government bonds at reasonable prices, and later there was no demand for them at all.[1]

[1] *See my analysis of the Hungarian case – Bod (2009)*

Cross border banking credit lines got suspended, evoking the spectre of sudden stop in capital inflows. The Hungarian authorities got frightened, asked for help, one can venture to claim, in a panic.[2]

Within weeks, the EU/IMF tandem put together a sizable loan package. The Council of the EU, by its decision of 4 November 2008 (14953/2/08), offered Hungary a medium-term financial assistance of up to EUR 6.5 billion. This loan was administered under a balance of payments facility created for member states - based on Article 119 of the Treaty - back in 2002 (Regulation No 332/2002).[3] As the text of the Treaty goes: although there is no general bail-out clause in the legal documents, yet when a member state is having difficulties with its balance of payments, and the difficulties are liable to jeopardise the functioning of the common market, the Commission investigates the position of the given state, and the Council, acting by a qualified majority, will grant assistance. The Council lays down the conditions and details of such assistance, possibly in a „coordinated way with other financial institutions" to which the client in case may recourse – an implicit reference to the IMF. In addition to international institutions, other Member States, as the text explicitly says, may wish to join in granting assistance.

In the case of Hungary, there was no third country assistance involved. Instead, when Hungarian office holders approached the Commission (and probably a few key European capitals), the EU immediately contacted the IMF and requested it to join in the exercise of providing policy-related financing for Hungary.

With Greece some time later (Summer 2010) having a similar joint EU/IMF programme, the question 'Why should an EU member state be financed by the Fund?' does not now seem to be a real issue. Still, the Hungarian case raises interesting policy issues concerning the role of the IMF, and also the role of the EU, when an EU member state is experiencing financial difficulties.

The simple, but far from the only reason of why the European institutions insisted on IMF participation in the loan was the lack of funds at the disposal of the EU. From the start, its financial resources of that nature were limited: at the time of the creation of the 2002 regulation the total sum was 12 bn EUR. Even doubling or trebling the size of this "exceptionally loan facility" would not be enough to solve the problems of a single medium sized European economy in need of contingency finance. This was the way the EU loan was provided in the Hungarian case (or later to Greece) in conjunction with loans from the International Monetary Fund. The Fund provided SDR 10.5 billion (around EUR 12.5 billion) under a Stand-by arrangement (SBA) approved on 6th of November that year, and the World Bank (WB) also earmarked a loan of EUR 1 billion.[4]

EU: Not Good at Trouble Shooting

The other, and probably as important, issue at stake was loan conditionality. The conditions of the economic policy to be respected by the Hungarian authorities were laid down in the Memorandum of Understanding signed on 19 November 2008 between the Commission on the one hand, and the Hungarian government and the National Bank of Hungary, on the other (MNB, Memorandum, 2008). But the Commission's team worked, in fact, closely with that of the IMF, and the loan conditions were actually put together, approved and monitored uni sono by the two lending institutions. In this particular case, as later with the Greek one, EU decision makers were probably motivated to team up in the deal with the IMF knowing that the Fund was better prepared to set quantitative loan conditions and to oversee indebted governments than other bodies. In addition, a Bretton Woods institution's corporate governance is different from the EU's: decision taking is much faster in Washington DC than in Brussels.

The sensitive issue of sovereignty also comes into the picture. Granting financial support is conditional and depends on the borrower's willingness to take particular economic policy measures as determined by the provider(s) of the funds; since the borrower is a member state of the EU (and member of the IMF/World Bank set) the parties to the deals face an awkward situation. It is hard for the EU Council (consisting of premiers or finance ministers of member states) to force politically unpopular loan conditions on a peer, particularly when other nations are also experiencing similar economic difficulties. Within the EU, economic policy harmonization agreements, pacts and initiatives among the member states do exist, but the coercive mechanisms have proved to be soft or vague.[5] This is less so with the IMF; throughout the decades, sovereign borrowers have learnt to accept IMF tutelage in return for loans at short notice from the IMF and its sister institutions.

[2] *This is how the present author sees the behaviour of the government of the day, see: Bod, P. A. (2010) : Hungary Turns to the International Monetary Fund in 2008 – Anatomy of a Crisis. Wekerle Sándor Üzleti Főiskola. Gazdasági Élet és Társadalom. No. 1. forthcoming).*

[3] *The documents referred to are the Consolidated version of the Treaty on European Union and of the Treaty establishing the European Community (2002/C325/01), and the Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments.*

[4] *See: Memorandum of Understaning between the European Community and the Republic of Hungary. November 2008. http://www.mnb.hu/A_jegybank/eu/hitelmegallapodas*

[5] *This is the case with the Stability and Growth Pact.*

True, to avoid formal loss of sovereignty, it is the borrower government that „offers" economic policy conditions to the lender, detailed in a letter requesting the loan to the IMF/World Bank. In this particular case, the request letter sets outs the Hungarian government's planned budgetary, tax policy and regulatory actions as agreed upon during the joint IMF/EU staff visit prior to finalizing the letter. „The 2009 budget will be amended to reflect the deterioration in the economic outlook and to further reduce the government's borrowing requirement.

The revised budget envisages a general government deficit of 2½ percent of GDP, which implies a structural fiscal adjustment of about 2½ percent of GDP. Revenues, which are difficult to project precisely in the present environment, are expected to decline somewhat as a percentage of GDP, reflecting the slower growth of the tax base and the effect of the spending measures outlined below. The tax cuts previously envisaged for 2009 will be cancelled and we will not make any changes in the tax code that could lead to lower net revenues."[6]

But the wording of such request letter should not deceive us: the government applying for an IMF loan would only include its "own" planned items in the letter after the measures have been thoroughly reviewed by the Fund's mission to the borrowing country. This is why the approval of such a request at the IMF Board meeting is mostly a formality; the planned measures being tabled by the government are the very ones that the IMF expects from the applicant.

The broad policy promises as they appeared in the Hungarian request letter were later detailed in follow-up negotiations. The particular loan conditions of the IMF/EU loan fell into the Fund's practice of determining quantitative performance criteria and targets, as well as structural measures. In this case performance criteria included target figures on central government primary balance, inflation, international reserves, external debt, and stock of central government's debt. Structural benchmarks included the passage by Hungarian parliament of a law on the Hungarian Financial Supervisory Authority, a scheme to recapitalized Hungarian banks, and introduction of new forms of taxes, such as tax on real estates.

It became clear soon that not all policy promises could be delivered even if the government had really tried hard. The economic reality turned out to be rather different, with implications for the public sector budget as well. 2009 will go down in Hungarian economic history books as a year of deep contraction of output, when budget revenues were strongly affected by the economic downturn. Eventual deficit and debt data varied from those written into the loan documents back in 2008. Still, the drawing down of the loan went ahead, as the Fund/EU team acknowledged the efforts of the government (a reshuffled Socialist government since April 2009, a sort of care-taker administration with a limited mandate until the general election in April 2010).

It is telling how much the data changed between the first and the second IMF loan review in major policy variables: the output contraction turned out to be much deeper by mid-2009 than anticipated at the granting of the loan and at the time of the first review. The original budget deficit figures had to be revised. Since deficit (primary balance) is one of the qualitative indicators, the Hungarian government asked for a waiver – the request was supported by the IMF/EU field team, and granted by the lenders.

Table 1. Hungarian macro economic data under successive IMF reviews

	2009	
	1st Rev.	2nd Rev.
Real economy (change in percent)		
Real GDP	-3,3	-6,7
Total domestic demand 1/	-4,5	-8,0
Private consuption	-3,8	-6,5
Gross fixed investment	-5,0	-10,3
Foreign balance 1/	1,1	1,3
Exports	-3,2	-15,1
Imports	-4,3	-16,7
CPI (end year)	4,3	6,4
CPI (average)	3,8	4,5
Unemployment rate (average, in percent)	8,9	10,5
Gross domestic investment (percent of GDP) 2/	19,4	22,5
Gross national saving (percent of GDP, from BOP)	15,4	18,4
General government (percent of GDP), ESA-95 basis 3/		
Overall balance	-2,9	-3,9
Primary balance	1,5	1,0
Debt	75,9	77,4

Source: IMF, second review

It is important to underline here the very fact that the lenders did not insist on the original loan conditions acknowledging that the macroeconomic conditions had changed significantly meanwhile. Having said that it is also true that even after a certain loosening of fiscal policy (1 per cent of GDP surplus instead of 1.5 per cent of surplus in primary budget) the fiscal environment still remained very strict for an economy shrinking by more than 6 per cent in that year.

The contrast to other European economies is striking: in some EU member states governments ran a double digit budget deficit in order to soften the blow of the international financial crisis to the given economy. In 2009 the largest government deficits in percentage of GDP were recorded by Ireland (-14.3%), Greece (-13.6%) the United Kingdom (-11.5%), Spain (-11.2%), Portugal (-9.4%), Latvia (-9.0%), Lithuania (-8.9%), Romania (-8.3%), France (-7.5%) and Poland (-7.1%) – as published by the Eurostat (Eurostat, 2010).

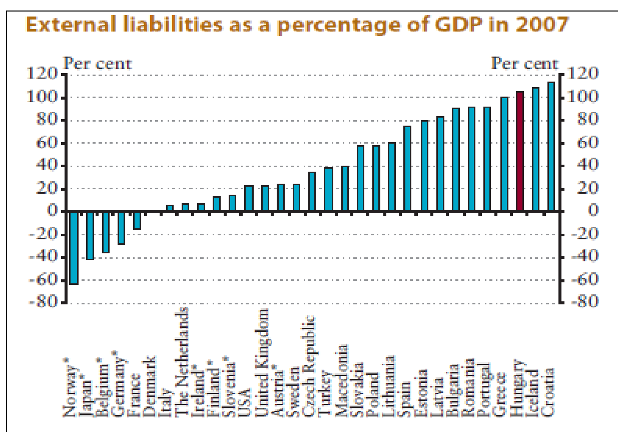
[6] *MNB (2008): Letter of intent. http://english.mnb.hu/engine.aspx?page=mnben_stand-by_arrangement*

These figures testify the tectonic changes in European fiscal positions and debt finance during the crisis, creating soon new realities for all parties concerned. The traditionally strict IMF stance on fiscality was gradually eased: the Fund joined the supporters of the concept of fiscal stimulus in crisis-stricken European economies. The change in attitude was so marked that commentators felt the IMF was „going soft" and not effective enough.[7] The EU Commission also had to accept that the benchmarks of the Stability and Growth Pact were disregarded by many member states. In this climate, the Hungarian loan conditions proved to be strict but not excessively during year 2009.

Return to Markets: When and at What Price

The aim of the IMF/EU contingency financing facility was to counterbalance the detrimental effects of the „near sudden stop" in inflows to Hungary, and give time for the country to return to financial markets. Let us therefore look at the behaviour of the capital market. In 2008 it became obvious that Hungary's first and foremost problem for analysts and financiers was high external indebtedness. Combined (public and private) external debt well exceeded 100 per cent of GDP by 2008; not extreme in good times, but certainly high enough in the times of nervousness in international flows.

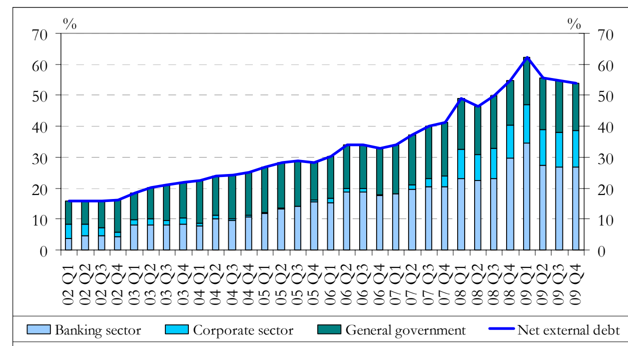
Table 2. External exposures of countries



Source: Koroknay (2008)

Secondly, the stock of external debt had been growing fast during the years before the shocks of 2008. These facts made suddenly Hungary a suspect case in summer of 2008 when tiny Iceland defaulted on a huge pile of foreign debt.

Table 3. Net external debt as a percentage of GDP



Source: MNB, Stability Report, 2010 April

The corporate sector's thirst for foreign funds was a quite general phenomenon in emerging economies throughout the years before 2008, with Hungary being no exception. But the country was exceptional in combining household indebtedness (via banks), corporate debts and massive public sector debts. This is why it is not much surprising that the financial turbulences of 2008 hit Hungary among the very first.

Banks, importantly, had mostly lent to households and businesses in foreign currencies until the events of 2008. The main driver of forex lending had been the large interest rate differential between the domestic currency (forint) and funding currencies such as the euro and the Swiss Franc. In Hungary, the increase in forex lending after 2003 reacted in part to the abolition of subsidies on forint-denominated mortgage loans. By the end of 2008, Hungary had had the highest share of loans in foreign exchange among the new Member States. Borrowing in foreign exchange is perfectly sensible when domestic interest rates are consistently high, and exchange risk is moderate – which was the case in Hungary and some other countries. The whole case changes if the currency deeply devaluates against funding currencies; this is what happened to the country after summer 2008.

Hungary ran high public sector deficits for a long time but domestic and foreign fund holders were ready to take Hungarian risks - until 2008. The country's sovereign risk rating improved to A-level in early 2000s when the country arrived at the doorstep of EU membership. Later, however, bloated debt and deficit figures simply unqualified the country for entry into the euro-zone, and deteriorating debts figures triggered sovereign risks and the country was downgraded to BBB, and then to BBB- by the major rating agencies in summer of 2008.

[7] *The Canadian central bank governor put it outspokenly: „Its fovernance is diffuse and ineffective. The IMF is effectively without the power of sanction." See: Carney (2010).*

After the news about the bankruptcy of Lehman Brothers in September 2008, financial market conditions immediately turned critical. Given its large fiscal deficits and high foreign exposure, Hungary became a target of speculations after the crisis of the Icelandic economy. On the 8th of October, the forex swap interbank market collapsed; the secondary market for government bonds froze, HUF depreciated steeply; trade was suspended in the Budapest stock exchange because of steep price fall. Government bond auctions had to be cancelled for lack of bidders.

Clearly, markets became edgy about Hungary. The perception of the country risk was reflected in the so-called CDS spread: the 5-year CDS spread of Hungary reached its peak levels around 600 bps in October 2008. By comparison, the Polish CDS spread was less than 300 bps in October 2008, the Czech CDS spread was less than 250 bps. The risk of default of Hungary was therefore perceived to be substantially higher than the default of Poland or of the Czech Republic.

While domestic (HUF-denominated) bond issues were restarted after a couple of months of suspension, the Hungarian government also tried to tap the international capital markets once the first shocks were over. The Ministry of Finance initiated an international bond issue in 2009 which was in fact significant overquoted. The authorities doubled the issuance volume from EUR 500 million to EUR 1 billion, and declared the issue a big success. However, the funding cost was very high: price of the bond exceeded the Bund (German government bond) of corresponding maturity by 432 basis points, resulting in an effective euro interest rate around 6.8 per cent.[8]

Year 2010 started more promisingly for emerging economies. Hungary issued its first US dollar-denominated bond after a five year interval in January 2010, against strong demand: orders totalled USD 7 bn, of which Hungary's AKK accepted USD 2 bn.[9] The 10 year instrument's yield was set 265 basis points over US Treasuries; visibly higher than the spread of 198 bps on Turkey's 10-year USD bonds. Turkey was ranked non-investment grade by major rating agencies, while Hungary stood at BBB-, the lowest investment-grade category, at Standard & Poor's; at Baa1, two notches higher,at Moody's, and BBB rank with Fitch, two ranks above non-investment (or 'junk') grade.[10]

HUNGARIAN POLITICS AND PASSIONS

The above pricing data indicates that an otherwise not cheap IMF/EU loan to Hungary was still less expensive than bonds issued to a sceptical capital market. Still, the incoming centre-right Hungarian Government under premiership of Viktor Orbán decided, after some confusing and confused communication, to suspend negotiations with the IMF/EU team in July 2010.

As the diplomatic statement of the IMF team put it:" "Over the past two weeks, the IMF mission has conducted intensive discussions with the authorities covering these issues. While there is much common ground, a range of issues remain open. The mission will therefore return to Washington, D.C. The IMF will continue to actively engage with the authorities with a view to bridging remaining differences."[11] As for differences there were many of them: first, the government wanted to negotiate a higher, 3.8 percent of GDP deficit for 2011 (rather than below 3 %) in exchange for structural reforms, while the team representing the lenders insisted on the original schedule. Second, the lenders did not like the planned financial sector levy ("bank tax")' either, designed to raise 200 billion forints (nearly one percent of GDP) in 2010 and unspecified years after: this would help reduce budget deficit but at the cost of hurting economic growth through reduced financial intermediation. The IMF/EU team noted that plans on structural reforms in transport and health care, in reorganizing state owned enterprises were not clear enough – while the new government felt it was too early to present detailed plans. The lenders' team was reported to worry about independence of the central bank after a proposed public sector pay ceiling which would much reduce the central bank governor's pay (a move also objected by the European Central Bank).

At the end of the talks, others used less diplomatic language such as "failure of negotiations".[12] The exchange rate weakened immediately, as investors worried about the future of the Hungarian finance.

[8] *Government Debt Management Agency (AKK), Auction and subscription results. See: http://www.akk.hu/aukcio*

[9] *Published by Portfolio.hu on January 27, 2010*

[10] *Polish issue of 5 year USD-denominated bonds were sold at 215 bps above similar US goverment bonds in July 2010, reflecting investors trust in the Polish economy (in contrast with Hungary's) in mid 2010.*

[11] *Statement by the IMF Mission to Hungary. Press Release No. 10/295. July 17, 2010. Concerning the differences between the parties, see Reuters: Factbox: Unresolved issues between Hungary and lenders Jul 23 2010.*

[12] *"Hungarian assets came under heavy selling pressure on Monday after the International Monetary Fund and European Union postponed the conclusion of a budgetary review in Budapest, insisting that the government must rethink its proposals. Although Hungary is not in urgent need of IMF financing, the failure of the negotiations was a blow to investors who remain uneasy about the country's debt levels and reliance on external financing."Financial Times, Forint falls after IMF halts Hungary talks. July 19, 2010*

A couple of notes should be made here concerning the background of the tensions (“remaining differences”). During the IMF’s visit, the Hungarian government officials tried to persuade the Fund to accept a deficit target of as much as 3.8 percent of GDP for 2011 instead of 2.8 percent (as the minister for economy and finance G. Matolcsy said in July 2 interview). Hungary needs extra spending headroom to finance changes, such as merging state agencies at the county level, to yield longer-term savings, or reorganizing loss making state owned firms, the minister said, adding that the government also sought a two-year “precautionary” loan agreement beginning in 2011.[13]

Eventually, the loan review remained open; and without its successful closing, the government could not tap the remaining tranches of the ongoing loan. But the unused funds were not in fact needed at all, in light of record high international reserves at the Hungarian central bank. More importantly, the parties did not enter negotiations about the precautionary loan facility that government personalities had already discussed about in public. Failure of negotiations or temporary suspension of talks? Would the breakdown of that given round of talks amount to an ‘economic freedom fight’ against distant global powers? The latter version may sound strange, yet some Hungarian officials, and particularly the media close to the governing party, swiftly turned the collapse of the talks into something positive: deliberate action to strengthen national sovereignty. As the mentioned minister phrased it in a television programme: “the cabinet remains intent on maintaining the country's financial independence and regaining economic self-determination.”[14]

A number of foreign commentators joined the debate – or used the Hungarian case to illuminate their views and beliefs.[15] Probably neither the fierce defense, nor the emotional dismissal of the points raised by government circles and supporters helps much to see clearly what policy course would really serve the nation’s long term, strategic objectives.

The behaviour of rating agencies is easier to gauge. Analysts look at macro figures as well as at the political scene, and based on what they believe to be a ‘good’ economy’ versus a ‘bad’ one, they rank countries. Recently some agencies became nervous about the Hungarian economy: its real position and its macro-management team.[16]

But the IMF was not the only, let alone the main, obstacle to the new Hungarian government’s planned fiscal policy course, but the EU as well. The Hungarian general elections in April 2010 were obviously very important for the countr, but the change of government remained a domestic story. In the spring of 2010 the Greek sovereign debt crisis certainly led to shockwaves in Europe. As a consequence of this crisis, most European governments were soon forced to take measures to calm excitements in the financial markets. Not only Greece, but also Spain, Portugal and Ireland, declared drastic actions to smooth nervy bond markets. To avoid a similar fate, in May Italy pledged to cut its budget deficit by €24 billion by 2012, and even the most creditworthy nations joined in: in June the German government announced a package of measures that would save it around €80 billion by 2014. Its chancellor, Angela Merkel, said Germany should set an example of budgetary discipline to other euro-zone countries. The French government also declared it would act to trim its deficit by abolishing tax exemptions and freezing most spending programs from 2011 on.[17]

The mood thus changed in the summer of 2010 in the European Union, partly because of a parallel change in winds in the financial markets. There remained no room of maneuver for a new government, however logical and justified it would be to apply a dose of anti-cyclical spending to kickstart the stagnating economy. Neither fellow politicians, nor financial market players felt sympathy for the incoming Hungarian administration in its endeavors.

CONCLUSION

No economy, not even the biggest in terms of global market share, remains unaffected by imbalances and tensions in product and capital markets. Open, trade dependent small economies such as Hungary are especially exposed to external economic and financial forces. Being a member state of the European Union adds further to the factors that national governments must take into account in elaborating their policies. All these, yet, do not mean that ‘globalization’ and ‘integration’ would lessen the importance of nation state policy making. Governments still have levers to use and initiatives to launch; they can even – as this was the case here – question the policy line of influential international players like the IMF. The introduction of the Hungarian “bank tax” is an example for the sovereign decision of a government, against the advice of powerful institutions.

[13] *Bloomberg: Hungary Assets May Fall as IMF, EU End Talks Without Backing Deficit Plan. Jul 18, 2010*
[14] *Portfolio.hu: EcoMin says Hungary will not "break its back" to cut deficit in 2011 6th August, 2010*
[15] *See supportors of the Hungarian new government’s position: e.g. Krugman, Paul: The New York Times, Give Me Your Tired, Your Poor, Your Hungary. August 4, 2010; Mark Weisbrot: To Viktor go the spoils: how Hungary blazes a trail in Europe. Guardian.9 August 2010, while as for critical opinions, see: Orban out on a limb. Hungary’s new prime minister takes on the world. The Economist. Aug 5th 2010; Reuters Analysis: Hungary risks markets' goodwill with IMF/EU failure. By Krisztina Than, Jul 23, 2010*
[16] *Standard&Poor’s: Credit Trends: Global Potential Fallen Angels. Publication date: 10-Sep-2010*
[17] *Economist, The Budget cuts in the euro area. Jun 10th 2010*

Governments can – most of the time – choose the degree of dependence on one class of fund holders over another class: IFI finance over private capital market. Yet, with high debt exposure, the government cannot neglect the fact that rating agencies, market analyst, fund holders watch indicators such as debt to GDP, deficit to GDP, relative size of international reserves very carefully. The market players demand the contour of an economic policy, and they appreciate simple, promising "stories" and easy to read figures. In a roundabout way, the markets enforce on their clients a policy line which is rather similar to the one recommended by IFIs.

Market finance of sovereign debt seems to be a totally business issue, while official financing has an element of formal policy harmonization under formal contracts. On the surface, the latter seems to involve borrower's concessions in terms of economic policy sovereignty: governments sign memoranda, expose themselves to regular reviews. In contrast, markets are inhabited by too many players with their fast changing inner relations, thus market finance does not appear to infringe sovereignty – yet, it does reduce the room of manoeuvre of an indebted government in need of funding.

This simple truth is sometime hard to understand in the world of politicians accustomed to legal, constitutional and institutional relations. But a major lesson of the financial crises of 2007-2010 was exactly the realization that capital markets are run by players with limited background knowledge and poor capacity to discount long term factors. Market players themselves may turn to governments and supranational institutions for help in case of shocks. Therefore, national governments can steer an open economy successfully only by playing both games well: the market game and the more formal game of international institutions.

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