Zero interest loans: only for the rich?

By Pierre Madec

On 1 January 2013, a new version of the zero-interest loan (*prêt à taux zéro – PTZ*) came into force. It is more restrictive than previous versions, with lower eligibility ceilings and a sharper focus on new housing (and old "HLM" council housing). Here we review the measure's possible consequences.

Given the great pressure on today's rental market ([Le Bayon, Madec and Rifflart, 2013]()), the goal of facilitating access to homeownership for first-time buyers with low down payments is commendable. Nevertheless, some questions need to be asked: are the poorest households the primary beneficiaries? Does a PTZ loan trigger the purchase of a first principal residence (an incentive effect) or does it simply accompany the purchase (a windfall effect)? Has the development of PTZ loans and their long-term implementation significantly helped expand supply on the market for new properties? And is the budgetary expenditure associated with the measure cost-effective in light of the overall results?

Established in 1995 to facilitate access to homeownership for poorer households, zero interest loans have evolved since then along with budgetary constraints and political decisions. In 2005, the scheme, previously reserved for the purchase of a new home (or an existing home needing extensive renovation), was extended to include the acquisition of existing homes with no conditions on renovation in order to increase homeownership in areas with a shortage of land (including Paris). This led to doubling the number of PTZ loans granted in 2005. Similarly, in 2011, the removal of eligibility ceilings allowed the programme to set a record with the grant of nearly

352,000 PTZ loans. In the context of the fiscal and real estate crisis, the reappearance in 2012 of ceilings on income and the elimination of old dwellings (excluding HLM housing) from the programme's eligibility list reduced the number of PTZ loans to a historically low level (64,000).

On paper, the principle of this "reimbursable non-interest-bearing loan" is simple: in return for the agreement of a loan at zero interest, the banks benefit from a tax credit in the amount of the uncollected interest. This loan, which is limited to a certain loan-to-value ratio [1], must be associated with a mortgage, or principal loan, and can therefore be considered as a personal contribution during the acquisition of the principal residence, thus at the time the principal loan is granted.

In fact, calculating the volume of PTZ loans granted is complex, as it involves ceilings on income and on the transaction amounts, which depend on the geographical area and the loan-to-value ratio. Similarly, the terms of repayment (the duration and grace period) are defined based on membership in an "repayment bracket" (*tranche de remboursement*) that is calculated based on the household's resources and composition.

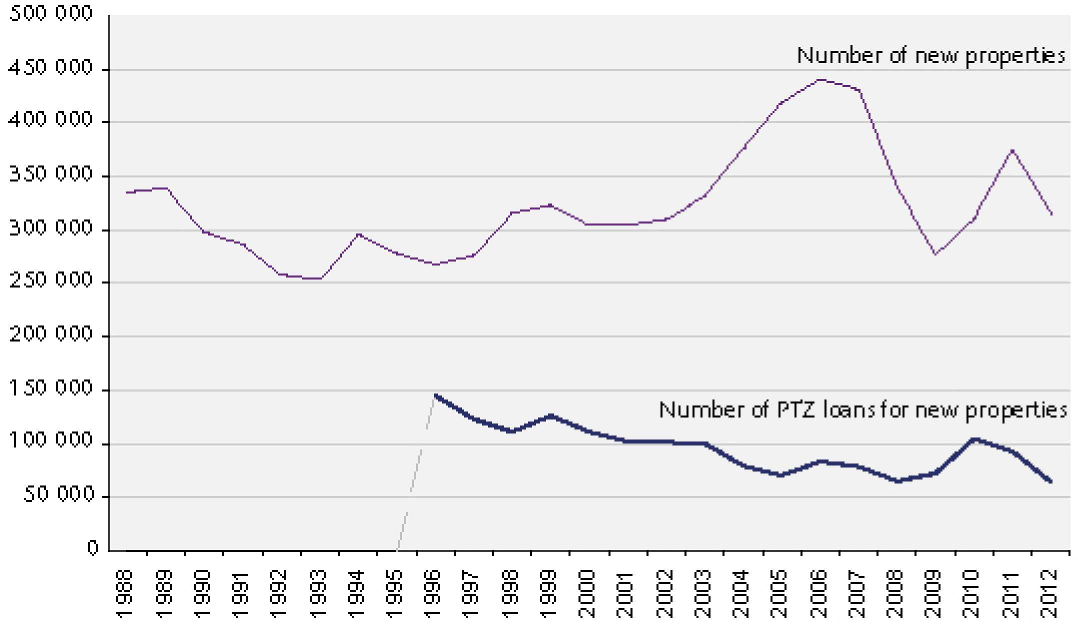
Are PTZ loans stimulating the supply of housing on the market for new properties?

One of the stated objectives when creating the programme was to support and boost a sluggish market for new properties. It is actually difficult to assess the impact of PTZ loans on the construction market. Observing the evolution of the number of dwellings constructed before and after the implementation of PTZ loans (Figure 1), it does not appear that the 150,000 PTZ loans granted in 1996 had a significant impact on the volume of new housing units. From this quick observation seems to emerge the idea that even without the programme, and taking into account the rather mild economic situation, the housing market would have been equally dynamic. Similarly, the growth observed on the new property market over the period 1999-2007 is not attributable to the programme to facilitate homeownership [2].

According to the latest available statistics (SGFGAS 2012), as with incentive schemes for rental investment (Madec 2013, Levasseur 2011), the zones established during the implementation of PTZ loans leave it very difficult to direct investment into the areas under the greatest pressure. Thus, in the third quarter of 2012, more than half of PTZ loans were granted for purchases in Zone C, that is to say, the area least susceptible to market pressures (against 15% for Zone A [3]). This is largely explained by the extreme scarcity (and high cost) of land in Zones A and B. It was in order to end this form of geographical discrimination that in 2005 the system was opened to old housing. Over the period 2005-2011, more than a million PTZ loans were granted for the acquisition of an existing dwelling, thereby betraying one of the initial objectives of the programme.

Finally, despite a willingness to promote high environmental quality housing, including through the provision of higher loan-to-value ratios for energy-efficient housing (BBC) [4], the PTZ loans have played only a small role in the construction of BBC housing, as in the third quarter of 2012 two-thirds of the loans granted were for the purchase of housing that does not meet BBC standards.

Figure. Number of new properties built and of PTZ loans granted



Sources : Minister of Housing, SGFGAS.

Do PTZ loans facilitate homeownership for poorer households?

One of the main criticisms of PTZ loans is the poor quality of the targeting. Whereas the purpose of the programme is to help households in the greatest difficulty by financing an initial down payment, the particularly high level of the income ceilings (when they are not simply eliminated entirely as in 2011) has meant eligibility for households with no *a priori* need for the State in order to acquire property. For example, the eligibility ceiling in 2012 was 43,500 euros annually for one person wishing to acquire a principal residence in Zone A. This ceiling made 90% of households in the Paris region eligible for PTZ loans (source: INSEE) [5].

Furthermore, numerous studies have attempted to measure the impact of PTZ loans on household financing capacity (ANIL 2011, Beaubrun-Diant 2011, Gobillon and Le Blanc 2005, Thomas and Grillon 2001). Gobillon *et al.* thus concluded that PTZ loans “trigger the purchase” for only 15% of homebuyers. In other words, according to the model proposed by the authors, 85% of households have access to the property with or without the PTZ. Similarly, recent studies on the profile of homebuyers (Le Bayon, Levasseur et Madec 2013, Babès Bigot Hoibian 2012, INSEE 2010) highlight how it is becoming increasingly difficult for poorer households to purchase a home. Thus, according to Le Bayon *et al.*, households in the lowest quartile of living standards, the households targeted by the homeownership programme, have seen their chance of acquiring a principal residence halved between 2004 and 2010. In view of these various results, it seems that the PTZ loan programme is having difficulty, at least in its earlier versions, playing a role in helping low-income households to become homeowners. This conclusion may need to be nuanced, however, if we look at the latest statistics provided by the SGFGAS. According to these data, workers and employees accounted for 25% and 33% respectively of the recipients of PTZ loans in the third quarter of 2012. Similarly, one out of three recipients belonged to the lowest "repayment bracket". However, as the calculation of these brackets takes into account particularly high income ceilings, membership in the first repayment bracket is not really equivalent to meeting "poverty criteria".

Finally, by increasing demand for new housing on a market with low supply elasticity and by allowing many households to acquire more expensive housing, programmes to assist homeownership have long been reproached for their inflationary effects (ANIL, 2002).

The PTZ programme:how much does it cost?

For 2012, the cost to the State for the PTZ programme was 1.34 billion euros. Given the number of beneficiaries, this may seem expensive, but, like all public assistance programmes, it needs to be analyzed in terms of efficiency.

A quick assessment can be made of the impact of the PTZ programme on housing investment. To estimate the multiplier effect of the PTZ programme in 2012, we used the latest available statistics (SGFGAS 2012) and made the following assumptions [6]:

- 50% of the beneficiaries belonging to the lowest (*Tranche 1*) repayment bracket are what are called “triggered” households (*i.e.* 15 % of all beneficiaries);
- Thanks to a PTZ loan, “non-triggered” households increase the amount of their purchase by 3%.

Table. Breakdown of PTZ loans by repayment bracket and evaluation of the impact on housing investment

Repayment bracket	Membership	Membership in %	Average amount of the operation (€)	Average amount of PTZ loan granted	Impact of PTZ on investment in housing (billion €)
1	19 200	30	173 000	38 620	+ 1 711
2	6 400	10	178 000	32 077	+ 34
3	6 400	10	184 000	32 500	+ 35
4	6 400	10	183 000	29 000	+ 35
5	12 800	20	170 000	23 000	+ 65
6	12 800	20	188 000	21 000	+ 72
Total	**64 000**	100	**179 000**	**29 800**	+ 1 953

Source: SGFGAS, author's calculations.

Overall, therefore, according to our estimates and under the assumptions spelled out above, in 2012 the PTZ programme stimulated almost 2 billion euros in investment in housing at a tax cost of 1.3 billion euros. The multiplier effect was therefore 1.5. This is in the lower range of what has been observed in other countries with similar programmes (1.5 to 2). This multiplier could be much higher if households were targeted more rigorously. Indeed, for the “Tranche 1” repayment bracket, under the above assumptions and considering that this segment accounts for half of the tax expenditure (a generous assumption), the multiplier is 2.6. However, we are still far from the optimal theoretical multiplier of 6 estimated by Gobillon and White [7].

What about the 2013 version of the PTZ?

To deal with the various criticisms that have been raised, on 1 January the government attempted to improve the conditions for access to the PTZ programme by:

- Reducing eligibility ceilings from 17% (in zone A) to 30% (in zone C);
- Freezing ceilings on the transaction cost in new housing and ex-HLM (council) housing;
- Lowering the loan-to-value ratios;
- Re-establishing repayment deferrals of up to 15 years for households in the lowest repayment bracket.

For the most part, these measures will help to target assistance for homeownership more accurately. However, some improvements could still be made. In 2013, the income ceilings for Zone A still include about 80% of inhabitants of the Paris region. In addition, the possibility of acquiring existing HLM council housing, which is potentially very energy-consuming, seems inconsistent with the promotion of new energy-efficient housing. For low-income households in high-demand areas, would it not be better to promote the purchase of housing that, while not new, has energy characteristics closer to what is required for new housing?

Likewise, re-establishing the principle of repayment deferrals of up to 15 years could prove objectionable. Indeed, it may lead to undermining the solvency of some households by reducing the duration of their principal loan. The banks, taking into account the deferral, tend to align the duration of the principal loan with the duration of the deferral in order to avoid an excessive jump in the future monthly repayment. So, the deferral may on the contrary increase the risk of default, as, once the deferral is over, households may be hit by a surge in their monthly payments (Bosvieux and Vorms, 2003).

Finally, the freeze on transaction ceilings cannot be sustained given first, the growing gap that exists between the ceilings and market prices, and second, the continuous increase in construction costs resulting from the normative inflation experienced by the sector.

To conclude, it is important to take note of the existence of a debate over the very need for a programme to assist homeownership: should the State encourage, assist or finance homeownership for renters? Should taxpayers help renters to become homeowners, as with tax incentives for investment in rental housing? For the poorest households, who find it impossible to come up with a sufficient personal contribution for a purchase, it may seem reasonable to assume that the State is playing its role by helping the most vulnerable to follow the standard residential trajectory, from cohabitation with parents to rental and then ownership. For others, we cannot rule out the existence of significant windfall effects, as outlined above. To avoid these problems and improve the financial positions of the households originally targeted by the programme, a thorough overhaul of programmes to promote homeownership (social or otherwise) is essential.

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[1] That is, a maximum percentage of the amount of the transaction.

[2] The new property market was, for the period under consideration, boosted strongly by programmes to stimulate rental investment (see Le Bayon *et al*. 2013).

[3] Paris, the near suburbs and part of the outer suburbs.

[4] In 2012, for purchases in Zone A, the loan-to-value ratio was 38% for new energy-efficient (BBC) housing versus 26% for non-BBC.

[5] For an annual income of 43,500 euros, assuming a rate of 3.2%, borrowing capacity came to an average of 260,000 euros (excluding the PTZ loan), *i.e.* a housing unit of at least

50 sq.m in the near Paris suburbs (excluding the communes bordering Paris).

[6] These assumptions are in accord with the results of the modelling proposed by Gobillon and Le Blanc (2005). The latter found a multiplier effect for the PTZ programme on the order of 1.1 to 1.3.

[7] This multiplier was estimated by assuming perfect targeting for the programme, that is, that all the beneficiaries are "triggered" households.

Cyprus: a well-conceived plan, a country in ruins…

By Anne-Laure Delatte and Henri Sterdyniak

The plan that has just been adopted sounds the death knell for the banking haven in Cyprus and implements a new principle for crisis resolution in the euro zone: banks must be saved by the shareholders and creditors without using public money. [1] This principle is fair. Nevertheless, the recession in Cyprus will be deep, and the new extension of the Troika's powers further discredits the European project. Once again the latest developments in the crisis are laying bare the deficiencies in euro zone governance. It is necessary to save the euro zone almost every quarter, but every rescue renders the zone's structure even more fragile.

Cyprus never should have been accepted into the euro zone. But Europe privileged expansion over coherence and depth. Cyprus is a banking, tax and regulatory haven, which taxes companies at the rate of only 10%, while the balance sheet of its oversized banking system is nearly eight times its GDP (18 billion euros). Cyprus is in fact a transit hub for Russian capital: the Cypriot banks have about 20 billion euros in deposits from Russia, along with 12 billion euros in deposits of Russian banks. These funds, sometimes of dubious origin, are often reinvested in Russia: Cyprus is the largest foreign investor in Russia, to the tune of about 13 billion euros per year. Thus, by passing through Cyprus, some Russian capital is laundered and legally secured. As Europe is very committed to the principle of the free movement of capital and the freedom of establishment, it has simply let this go.

Having invested in Greek government debt and granted loans to Greek companies that are unable to pay due to the crisis, the island's oversized banking system has lost a lot of money and has fostered a housing bubble that burst, resulting in heavy losses. Given the size of the banking system's balance sheet, these losses represent a significant share of national GDP. The banking system is in trouble, and as a consequence the markets speculated against Cypriot government debt, interest rates rose, the country plunged into a recession, and the deficit deepened. In 2012, growth was negative (-2.5%); the deficit has reached 5.5% of GDP, the public debt has risen to 87% of GDP, the trade deficit stands at 6% of GDP, and the unemployment rate is 14.7%.

The country needed assistance both to finance itself and to recapitalize its banks. Cyprus requested 17 billion euros, the equivalent of its annual GDP. Ten billion euros of loans were granted, of which nine will be provided by the ESM and one by the IMF. From a financial point of view, the EU certainly did not need that billion, which merely gives the IMF a place at the negotiating table.

In exchange, Cyprus will have to comply with the requirements of the Troika, *i.e.* reductions of 15% in civil servant salaries and 10% in spending on social welfare (pensions, family allowances and unemployment), the introduction of structural reforms, and privatization. It is the fourth country in Europe to be managed by the Troika, which can once again impose its dogmatic recipes.

Cyprus is to lift its tax rate on corporations from 10 to 12.5%, which is low, but Europe could not ask Cyprus to do more than Ireland. Cyprus must increase the tax rate on bank interest from 15 to 30%. This is a timid step in the direction of the necessary tax harmonization.

But what about the banks? The countries of Europe were faced with a difficult choice:

– helping Cyprus to save its banking system amounted to saving Russian capital with European taxpayers' money, and showed that Europe would cover all the abuses of its Member States, which would have poured more fuel on the fire in Germany, Finland and the Netherlands.

– asking Cyprus to recapitalize its banks itself would push its public debt up to more than 150% of GDP, an unsustainable level.

The first plan, released on 16 March, called for a 6.75% contribution from deposits of less than 100,000 euros and applied a levy of only 9.9% on the share of deposits exceeding this amount. In the mind of the Cypriot government, this arrangement had the advantage of not so heavily compromising the future of Cyprus as a base of Russian capital. But it called into question the commitment by the EU (the guarantee of deposits under 100,000 euros), which undermined all the banks in the euro zone.

Europe finally reached the right decision: not to make the people alone pay, to respect the guarantee of 100,000 euros, but to make the banks' shareholders pay, along with their creditors and holders of deposits of over 100,000 euros. It is legitimate to include those with large deposits that had been remunerated at high interest rates. It is the model of

Iceland, and not Ireland, that has been adopted: in case of banking difficulties, large deposits remunerated at high rates should not be treated as public debt, at the expense of the taxpayers.

Under the second plan, the country's two largest banks, the Bank of Cyprus (BOC) and Laiki, which together account for 80% of the country's bank assets, are being restructured. Laiki, which was hit hardest by developments in Greece and which was more heavily involved in the collection of Russian deposits, has been closed, with deposits of less than 100,000 euros transferred to the BOC, which takes over Laiki's assets, while it also takes charge of the 9 billion euros that the ECB has lent it. Laiki customers lose the portion of their deposits over 100,000 euros (4.2 billion), while holders of Laiki equities and bonds lose everything. At the BOC, the excesses of deposits above 100,000 euros are placed in a bad bank and frozen until the restructuring of the BOC is completed, and a portion of these (up to 40%) will be converted into BOC shares in order to recapitalize the bank. Hence the 10 billion euro loan from the EU will not be used to resolve the banking problem. It will instead allow the government to repay its private creditors and avoid a sovereign bankruptcy. Remember that the national and European taxpayers are not called on to repair the excesses of the world of finance.

This is also a first application of the banking union. Deposits are indeed guaranteed up to 100,000 euros. As requested by the German government, the banks must be saved by the shareholders and creditors, without public money. The cost of bailing out the banks should be borne by those who have benefited from the system when it was generating benefits.

From our viewpoint, the great advantage is ending the poorly controlled financial status of Cyprus. It is a healthy precedent that will discourage cross-border investment. It is of course regrettable that Europe is not attacking other countries whose banking and financial systems are also oversized (Malta, Luxembourg, the United Kingdom) and other regulatory and tax havens (the Channel Islands, Ireland, the Netherlands), but it is a first step.

This plan is thus well thought-out. But as was modestly acknowledged by the Vice-President of the European Commission, Olli Rehn, the near future will be very difficult for Cyprus and its people. What are the risks?

Risk of a deposit flight and liquidity crisis: unlike the initial plan, which called for a levy on all deposits, the new plan is consistent with reopening the banks relatively quickly. In fact, the banks are staying closed as long as the authorities fear massive withdrawals by depositors, which would automatically lead to a liquidity crisis for the banks concerned. However, as small depositors are not affected and large depositors have their assets frozen until further notice, it seems that the risk of a bank run can be ruled out. A problem will nevertheless arise when the large deposits are unfrozen. Their almost certain withdrawal will very likely result in a loss of liquidity for the BOC, which will need to be compensated by specially provided liquidity lines at the ECB. Some small depositors who take fright could also withdraw their funds. Similarly, holders of large deposits in other banks, although in less difficulty and thus not affected, could worry that the levies will be extended in the future and therefore try to move their money abroad. Cyprus remains at the mercy of a liquidity crisis. This is why the authorities have announced exceptional controls on capital movements when the banks reopen, so as to prevent a massive flight of deposits abroad. This is a novelty for the EU. But the transition, which means shrinking the Cypriot banking sector from 8 times the island’s GDP to 3.5 times, could well prove difficult and may have some contagion effects on the European markets, since the banks will have to sell a significant amount of assets.

Risk of a long recession: the halving of the size of the banking sector will not take place painlessly, as the entire economy will suffer: bank employees, service partners, attorneys, consultants, auditors, etc. Some Cypriot companies, along with some wealthy households, will lose part of their bank holdings.

However, the plan requires simultaneous fiscal austerity measures (on the order of 4.5% of GDP), structural reforms and the privatizations so dear to Europe's institutions. These austerity measures, coming at a time when key economic activity is being sacrificed, will lead to a lengthy recession. The Cypriots all have in mind the example of Greece, where consumption has fallen by more than 30% and GDP by over 25%. This shrinkage will lead to lower tax revenues, a higher debt ratio, etc. Europe will then demand more austerity measures. Seeing another country trapped in this spiral will further discredit the European project.

Some desire to pull out of the euro zone has been simmering since the beginning of the crisis in Cyprus, and there is little chance that it will die out now.

It is therefore necessary to give new opportunities to Cyprus (and to Greece and Portugal and Spain), not the economic and social ruin imposed by the Troika, but an economic revival involving a plan for industrial reconversion and reconstruction. For example, the exploitation of the gas fields discovered in 2011 on the south of the island could offer a way out of the crisis. It would still be necessary to finance the investment required to exploit them and generate the financial resources the country needs. It is time to mobilize genuine assistance, a new Marshall Plan financed by the countries running a surplus.

Risk of chain reactions in the banking systems of other Member States: the European authorities must make a major effort at communications to explain this plan, and that is not easy. From this point of view, the first plan was a disaster, as it demonstrated that the guarantee of deposits of less than 100,000 euros can be annulled by tax measures. For the second plan, the authorities must simultaneously explain that the plan is consistent with the principle of the banking union – to make the shareholders, creditors and major depositors pay – while clarifying that it has a specific character – to put an end to a bank, fiscal and regulatory haven, and so will not apply to other countries. Let's hope that the shareholders, creditors and major depositors in the banks in the other Member States, particularly Spain, will allow themselves to be convinced. Otherwise significant amounts of capital will flee the euro zone.

Risk of weakening the banking union: the Cypriot banking system was of course poorly managed and controlled. It took unnecessary risks by attracting deposits at high rates that it used to make profitable but risky loans, many of which have failed. But the Cypriot banks are also victims of the default on the Greek debt and of the deep-going recession faced by their neighbours. All of Europe is in danger of falling like dominoes: the recession weakens the banks, which can no longer lend, which accentuates the recession, and so on.

Europe plans to establish a banking union that will impose strict standards for banks with respect to crisis resolution measures. Each bank will have to write a "living will" requiring that any losses be borne by its shareholders, creditors and major depositors. The handling of the Cyprus crisis is an illustration of this. Also, the banks that need capital, creditors and deposits to comply with the constraints of Basel III will find it harder to attract them and must pay them high rates that incorporate risk premiums.

The banking union will not be a bed of roses. Bank balance sheets will need to be cleaned up before they get a collective guarantee. This will pose a problem in many countries whose banking sector needs to be reduced and restructured, with all the social and economic problems that entails (Spain, Malta, Slovenia, etc.). There will inevitably be conflicts between the ECB and the countries concerned.

Deposit insurance will long remain the responsibility of the individual country. In any event, it will be necessary in the future banking union to distinguish clearly between deposits guaranteed by public money (which must be reimbursed at limited rates and must not be placed on financial markets) and all the rest. This argues for a rapid implementation of the Liikanen report. But will there be an agreement in Europe on the future structure of the banking sector between countries whose banking systems are so very different?

The Cypriot banks lost heavily in Greece. This argues once again for some re-nationalization of banking activities. Banks run great risks when lending on large foreign markets with which they are not familiar. Allowing banks to attract deposits from non-residents by offering high interest rates or tax or regulatory concessions leads to failures. The banking union must choose between the freedom of establishment (any bank can move freely within the EU countries and conduct whatever activities it chooses) and the principle of liability (countries are responsible for their banking systems, whose size must stay in line with that of the country itself).

In the coming years, the necessary restructuring of the European banking system thus risks undermining the ability of banks to dispense credit at a time when businesses are already reluctant to invest and when countries are being forced to implement drastic austerity plans.

In sum, the principle of making the financial sector pay for its excesses is beginning to take shape in Europe. Unfortunately, the Cyprus crisis shows once again the inconsistencies of European governance: to trigger European solidarity, things had to slide to the very edge, at the risk of going right over the cliff. Furthermore, this solidarity could plunge Cyprus into misery. The lessons of the past three years do not seem to have been fully drawn by Europe's leaders.

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[1] The over 50% reduction of the face value of Greek bonds held by private agents in February 2012 already went in this direction.

The Cypri-hot case!

By Jérôme Creel

In advance of a more in-depth study of the crisis in Cyprus and its impact on the euro zone, here are a few thoughts on the draft agreement reached last Monday morning, 25 March, between the Cypriot Presidency and some of the donors.

This proposal provides for the winding up of a private bank, Laiki, and shifting of its insured deposits (under 100,000 euros) to another private bank, the Bank of Cyprus, as part of its recapitalization. Deposits in the Bank of Cyprus in excess of 100,000 euros will be frozen and converted into shares. Ultimately, the Bank of Cyprus should be able to achieve a capital ratio of 9%, complying with applicable EU banking legislation. In exchange for these provisions and for an increase in taxes on capital gains and corporate profits, the European institutions will contribute 10 billion euros to Cyprus. Bank deposits guaranteed under the rules in force in the EU will still be insured, while the increase in capital gains taxes will reduce the remuneration of deposits in Cyprus, which have been above the European average.

In one week, the negotiations between the Cypriot authorities, the IMF and Europe’s institutions have led to radically different results. For the part of the rescue plan needed for the viability of the banking system, the Cypriot President was apparently faced with a choice between a levy on all depositors, including “small savers”, and a bank failure that would entail financial losses only for shareholders, bondholders and “big savers” (those with deposits of over 100,000 euros). It thus took a week for the democratically elected representative of a Member State of the European Union to give in and uphold the interests of the many (the general interest?) over the interests of the few, a handful of bankers.

The March 25th draft agreement also included a very interesting reference to the issue of money laundering. Cypriot banks will undergo audits to better understand the origin of the funds they collect. This time it did not take a week, but rather years for members of the Eurogroup to deal formally with a basic question about the operation of the Cypriot economy. Beyond Cyprus itself, there is reason to wonder whether there isn’t funny money in the EU too.

One final thought about the International Monetary Fund, the donor partner that together with the European Central Bank and the European Commission makes up the Troika. It seems that it set many of the requirements: should we conclude that the IMF has much more bargaining power than the ECB and the European Commission, that it is the leader of this Troika? If this is so, it would raise some problems: first, the ECB and the Commission are supposed to defend the interests of Europe, which would not be the case if these two institutions were under the thumb of the IMF. Second, we should not forget that during the recapitalization of April 2009, the IMF received additional funds from the EU countries, which was a wise decision on their part if their representatives anticipated that soon they would need recourse to bailout funds, with the funds allocated to the IMF returning back to the EU in the form of loans. That said, having the IMF dictate drastic conditions for qualifying for bailout funds that have largely been contributed by from the EU itself is questionable, and would undermine the process of European integration.