

Greek Default Deals Blow to IMF

Economists point to fund's missteps in 2010 Greek bailout plan



Failure to pay the \$1.7 billion due to the IMF, a record overdue obligation, puts Greece in a small group of mostly conflict-ravaged debtors that have stiffed the IMF. *PHOTO: SIMELA PANTZARTZI/EUROPEAN PRESSPHOTO AGENCY*

BY IAN TALLEY

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Greece became the first advanced economy in the seven-decade history of International Monetary Fund [to default on its loan payments](#), marking a significant setback for both for the country and the world's emergency lender.

Failure to pay the \$1.7 billion due to the IMF, a record overdue obligation, puts Greece in a small group of mostly conflict-ravaged debtors that have stiffed the IMF, a short list that includes Afghanistan's Taliban and coup-stricken Haiti. Zimbabwe was the IMF's last major defaulter in 2001.

The default to the IMF sent a warning signal to Greece's other creditors, including domestic Greek institutions such as pension funds and federal employees.

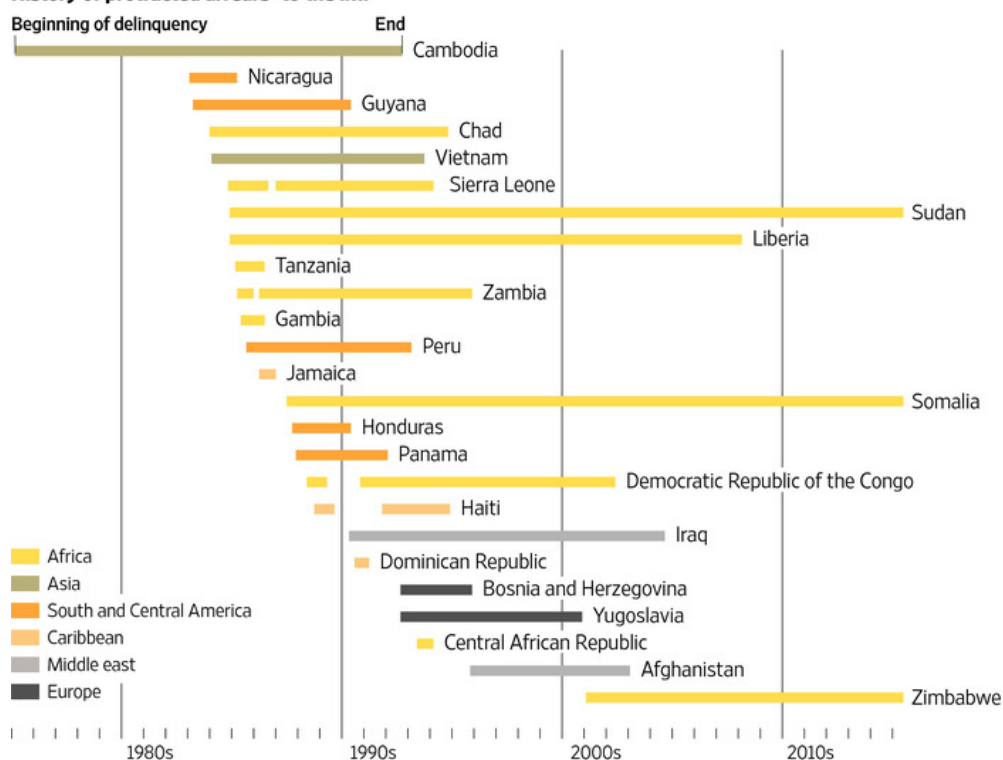
In ascribing blame for the default, however, many economists point in part to missteps by the fund itself when it helped craft a €110 billion joint bailout package in 2010. Critics highlight the IMF's failure to demand Greece embark on an immediate debt restructuring and its reliance on far-too-optimistic growth forecasts.

“The entire Greek saga since 2010 has been hugely damaging to the IMF’s reputation,” said Ajai Chopra, a visiting fellow at the Peterson Institute for International Economics and a former deputy director of the IMF’s European Department.

Past Due

Greece joins a small group of mostly conflict-ravaged debtors with its default to the IMF.

History of protracted arrears* to the IMF



*Overdue financial obligations of six months or more
Source: International Monetary Fund

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Joseph Stiglitz, a Columbia University professor and former World Bank chief economist, said the IMF’s missteps with Greece would likely make countries think twice about seeking assistance from the fund. He notes how the fund’s austerity focus in the Asian crisis of the late 1990s spurred many emerging markets to build up their foreign currency reserves as emergency-financing insurance.

“Turning over their sovereignty to the IMF is seen as an extraordinary risk,” Mr. Stiglitz said, “especially when you do such a bad job of forecasting.”

Officials from the IMF and the U. S.—the fund’s largest single shareholder—lay the blame squarely on Greece’s failure to deliver on promised economic overhauls. The

bailout, they say, gave Greece space to restructure its economy while allowing Europe time to develop financial backstops and the global economy room to recover.

But Mr. Chopra, the chief architect of the IMF's bailout of Ireland, said Greece's creditors, including the IMF, are also culpable for the bailout's failure.

By many accounts, the first program negotiated in 2010 between Athens, the eurozone and the IMF set the country up to stumble.

According to [confidential IMF documents reviewed by The Wall Street Journal](#), some IMF staff and nearly a third of the board's executive directors raised objections at the time to the bailout's design. Some executive directors warned the growth projections were unrealistic. Others stressed that a debt restructuring was needed to soften the impact of the deep budget adjustments and tough economic overhauls.

But under pressure by the fund's largest shareholders—the U.S. and Europe—the fund moved forward amid fears that a meltdown in Greece could spread across Europe.

The IMF's decision not to press for debt restructuring in 2010 “was the original sin,” said Alessandro Leibold, chief economist for the Brussels-based think tank, the Lisbon Council.

The fund eventually did require a restructuring of a hefty portion of Greece's debt in 2012. But by then, much of the damage was already done. Greece failed to meet the IMF's forecast for a return to growth in 2012. In fact, the economy shrank by 25% over four years.

Rather than helping cut Greece's debt—as it does in many other programs—the fund-designed bailout package sent the nation's debt skyrocketing even as the government moved to cut spending. On top of that, the IMF also [underestimated the effects of budget belt-tightening](#) on Greece and other eurozone countries.

The bigger debt load required more budget cuts and economic overhauls from Greece. As the years progressed, bailout fatigue set in and the program progressively chewed through several different governments. Political turmoil in Athens complicated the government's

efforts to deliver on many of the most important economic reforms. Unemployment shot up to 28%, the economy fell deeper and deeper into recession.

Greece [would have needed to secure more bailout cash](#)—its third emergency financing program in five years—from the eurozone to pay back the IMF.

Many analysts now expect that the only thing that will allow months of gridlocked bailout negotiations to move forward is another change in government, a fate that could become reality if voters back an emergency referendum Sunday on whether to accept creditor requirements for [another round of tough economic overhauls](#).