How the IMF Contributed to Destabilizing the Greek Economy

The IMF's IEO Evaluation of the Greek Program: Going beyond a Mea Culpa?

By Daniel Munevar
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The Independent Evaluation Office (IEO) of the IMF recently published its report on the response of the organization to the European crisis. The analysis focuses on the performance of the IMF in the context of the programs for Greece, Portugal and Ireland. It provides a valuable insight into the conflicts within the IMF itself, and especially between the executive board of the organization and its management and staff. At the hearth of this conflict was the decision making process, which led to the disregard of technical judgments and internal procedures in favor of choices of political nature that were adopted in European capitals. As such, the work of the IEO offers a more nuanced understanding of the role of the IMF in the crisis than previously available. Furthermore, it provides additional arguments to condemn the structure and outcomes of the programs that led to the bailout of private creditors while simultaneously burdening public finances with debts to the tune of billions of Euros.

In this regard, most of the criticism of the IEO focuses on the involvement of the IMF in Greece starting in 2010. The Greek program is highly relevant, not only given the large sums of money involved, as Greece became the largest debtor in the history of the organization, but also because it set the tone for the interventions that were to follow in other Euro zone countries. The IEO is specially critic of the political intervention by European countries in the decision making process of the organization regarding the Greek program. Even though the report rejects the notion that the IMF was behaving as a junior partner to its European counterparts in the Troika, namely the EU Commission and the ECB, a careful reading of the supporting material show that in many instances the IMF limited itself to follow decisions and criteria being set by Euro area governments. In theory, Greek and Euro zone interests should have been aligned. However, in practice this was not the case. As a result, the design of the Greek program followed priorities being set according to the strategic interests of those governments, setting aside concerns regarding its harmful impact on Greece.

The clearest example of this internal contradiction was the decision not to restructure Greek debt in 2010. The IEO shows the significant division among IMF staff regarding the sustainability of Greek debt that existed at the time. On the one hand, some staff members argued that "in the absence of restructuring, debt was unsustainable" |1|. On the other, some held the view that with the right policies and sufficient financial support the country would be able to ensure debt sustainability without a restructuring. For the purposes of the involvement of the IMF in Greece, this was a key distinction to make as the rules of the organization mandated that large scale financial assistance could only be provided if debt was determined to be sustainable with high probability. Given that the staff was unable to reach an agreement on this issue, the participation of the IMF could only have taken place in the context of a debt restructuring. In any other case this would have been a rather uncontroversial decision. However, in Greece, other factors were at play.

In effect, European officials had made the decision that any financial assistance provided to Greece would exclude debt restructuring long before the IMF became involved in the discussions. In particular, both France and the ECB advocated strongly against this measure. At the time, it was perceived that a debt restructuring in Greece would create doubts regarding the safety of the sovereign bonds of other countries, causing the crisis to spiral out of control. In order to contain this "systemic risk" it was decided that financial assistance to the country should only be provided as a last resort and in what effect consisted of punitive terms. The opposition to restructure Greek debt protected the interests of French and German banks that stood to suffer steep losses on their €83 billion in loans to Greece |2|. Thus, when the IMF joined the Troika in March of 2010, the option to restructure debt was off the table. As one IMF staff member put it "the train had already left the station" |3|.

The IEO report highlights that at this point the IMF could have decided to refuse participation in the Greek program in order to avoid breaching its own internal guidelines. However, the eagerness of management to involve the IMF, and specifically that of Dominique Strauss Kahn, led to the disregard of this option. Instead what followed was a deliberate process of concealment of information by staff and management. The goal was to secure the simultaneous approval from the executive board of what should have been two independent decisions. The first issue was the board's endorsement of the Greek program. The second issue was the modification of the lending rules of the IMF, in order to allow the organization to provide financial assistance in a situation in which debt was not considered sustainable with high probability.

In the case of the former, the executive board was kept in the dark regarding the deliberations that had taken place among the staff regarding debt restructuring and other key aspects of the program in the run up to its approval |4|. Even on the day the program was approved, Gary Lipsky, the senior representative of the IMF management, lied by explicitly denying to the board that the staff had entertained the possibility of a debt restructuring. As he put it: "there is no Plan B. There is Plan A and a determination to make Plan A succeed; and this is it." |5| In the case of the later, the required change in the lending rules of the organization was embedded in the report requesting for the approval of the Greek program. Even though the staff had discussed the need to change the rules since April, they did not draw attention to the issue even on the day the program was approved |6|. The IEO highlights that as a result of these shady maneuvers "management's discretion and decision-making powers were left effectively unchecked" while "the decision-making and supervisory roles of the Executive Board were undermined" |7|.

The outcome of this process was a program that was destined to failure from its inception. When the adjustment started to get off track by early 2011, the IMF refused to acknowledge its Greek fiasco and instead doubled down on its failed strategy. The number of structural reforms required from Greece steadily increased from 15 in the initial program to more than 45 by 2012 |8|. As the list of measures multiplied after each review, so did the arguments regarding the unwillingness of Greece to reform. To cover the funding problems derived from unachievable fiscal targets, the IMF raised its privatization targets for Greece from €12.5 billion to €50 billion, despite the lackluster performance of the country in this area |9|.

In addition, the IMF was unable to develop or provide any compelling technical arguments that supported the claim that a debt restructuring in Greece represented the type systemic risk that was feared by European officials |10|. By the time debt restructuring took place in 2012, the IMF supported program had facilitated "the most dramatic credit migration from private into official hands in the history of sovereign debt" |11|. In the meantime, from the Greek perspective, the debt restructuring was "insufficient to reestablish solvency decisively" while "created a large risk for European taxpayers" |12|. In short, as one of the IEO background papers points out "the decision not to seek preemptive debt restructuring fundamentally left debt sustainability concerns unaddressed, magnified the required fiscal adjustment, and thereby— at least in part—contributed to a large contraction of output and a subsequent loss of Greek public support for the program". |13|

Against this damning indictment, Christine Lagarde defended the actions of the IMF on the grounds that despite its shortcomings, the program "enabled Greece to remain a member of the Euro Area—a key goal for Greece and the Euro Area members" |14|. From the perspective of the articles of agreement of the IMF, this claim holds little water. As it was pointed out by the Argentina representative to the executive board of the IMF on the fateful day that the first Greek programme was approved, "The Fund's financial assistance is supposed to… correct maladjustments without resorting to measures destructive of national or international prosperity". In the context of the IEO report this statement is especially relevant as it clearly points out that the IMF owed a responsibility to protect Greece as a country member, not to the Euro zone. However, the IMF neglected this obligation in order to turn the Greek program into a "holding operation" that gave the Euro area time to build a firewall and prevent contagion |15|.

Thus, the fact that it was the mainly the Euro zone, and not Greece itself, who stood to benefit from the program should open the discussion at least two sets of related discussion. On the one hand, it's the distribution of the costs of the Greek programme. Not only was Greece left on its own to shoulder the burden of an unsustainable debt but it also became the scapegoat for the failures of both IMF and Euro area governance. Given the clear-cut public good aspect of this type of program, its costs should have been distributed among those who stood to benefit from it. Indeed, as the IMF itself has suggested "the burden in such circumstances should not fall wholly on the member for whom the program is being granted… but should be shared more widely." |16| Sadly, as the recent agreement on the Greek debt shows, neither the IMF nor the Euro area are nowhere close to assume responsibility for the damage their policies have inflicted on Greece. On the contrary, the IMF has made more than 2.5 billion in profits from its loans to Greece |17|. On the other hand, there is the issue of the legal standing of the loans provided to the country. The IEO report confirms many of the findings of the Debt Truth Committee and as such strengthens the case regarding the illegitimate and odious character of Greek debt. As such, it's important to emphasize the call made by the Committee to repudiate the debt burden imposed upon Greece, as only the adoption of decisive measures that lead to significant debt relief will allow to start mending the deep social and economic damages caused by 6 years of crisis |18|.

Notes

|1| Schadler, S. (2016). Living with Rules: The IMF's Exceptional Access Framework and the 2010 Stand-By Arrangement with Greece. Retrieved from www.ieo-imf.org

|2| BIS Banking Statistics on an ultimate risk basis. Data for Q4 of 2009.

|3| IEO. (2016). THE IMF AND THE CRISES IN GREECE, IRELAND, AND PORTUGAL: AN EVALUATION. Retrieved from http://www.ieo-imf.org/ieo/files/co… v5.PDF

|4| De las Casas, M. (2016). The IMF Executive Board and the Euro Area Crisis—Accountability, Legitimacy, and Governance. Retrieved from www.ieo-imf.org

|5| IMF. (2010). Greece – Request for Stand-By Arrangement; Rule K-1 Report on Breach of Obligations Under Article VIII, Section 5 of the Articles of Agreement; EBM 10/45-1.

|6| Op. cit. 4

|7| Op. cit. 4

|8| Wyplosz, C., & Sgherri, S. (2016). The IMF's Role in Greece in the Context of the 2010 Stand-By Arrangement BP/16-02/11. Retrieved from http://www.ieo-imf.org/ieo/files/co…

|9| Ibid.

|10| Op. cit. 1.

|11| Op. cit .8.

|12| Ibid.

|13| Wyplosz, C., & Sgherri, S. (2016). The IMF's Role in Greece in the Context of the 2010 Stand-By Arrangement BP/16-02/11. Retrieved from http://www.ieo-imf.org/ieo/files/co…

|14| IMF. (2016). Statement by the Managing Director on the Independent Evaluation Office's Report on the IMF and the Crises in Greece, Ireland, and Portugal: An Evaluation by the Independent Evaluation Office Executive Board Meeting. Retrieved from https://www.imf.org/external/np/pp/…

|15| IMF. (2013). Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement IMF Country Report No. 13/156. Retrieved from https://www.imf.org/external/pubs/f…

|16| IMF. (2014). THE FUND'S LENDING FRAMEWORK AND SOVEREIGN DEBT—PRELIMINARY CONSIDERATIONS. Retrieved from http://www.imf.org/external/np/pp/e…

|17| Jubilee Debt UK. (2015). IMF has made €2.5 billion profit out of Greece loans – Jubilee Debt Campaign UK. Retrieved from http://jubileedebt.org.uk/news/imf-…

|18| Debt Truth Committee Hellenic Parliament. (2015). Truth Committee on Public Debt. Retrieved from http://cadtm.org/IMG/pdf/Report.pdf

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