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IMF split on Greek debt

Greece’s most senior creditor, the International Monetary Fund, appears divided on how to address Greece’s debt, which it has called unsustainable. The Fund’s Executive Board on Monday refused to say whether it would support Greece’s current bailout, which puts its continuation in doubt.

The disagreement centres on how much of its economy Greece should spend repaying debt. The eurozone, which holds the majority of Greek debt, wants it to spend 3.5 percent of its economy - something Greece committed to doing by 2018 in return for its third bailout loan in 2015. The IMF believes Greece must be given longer to repay its loans, allowing it to spend 1.5 percent of its economy a year.

The eurozone's method, demanded principally by Germany, would require greater cuts in public spending. While a majority of Executive Board members did not press for such cuts, some disagreed: “Most Directors agreed that Greece does not require further fiscal consolidation at this time, given the impressive adjustment to date which is expected to bring the medium-term primary fiscal surplus to around 1½ percent of GDP, while some Directors favored a surplus of 3½ percent of GDP by 2018," the Fund said in a press release.

Greek debt stands at an unsustainable 350bn dollars, almost twice the size of the economy. The International monetary fund says that without significant debt relief from the eurozone Greece won't be able to grow out of its debt problem. According to a leaked IMF estimate, the debt will explode to 275 percent of GDP - almost three times the size of the economy – after 2022. That's because the interest rate Greece pays on much of its debt will rise from an average 2.5 percent today to about seven percent, as its grace period comes to an end in five years.

The IMF's refusal to be involved in the Greek bailout could derail the European plan, and that would ultimately bankrupt Greece. "Come July, Greece will be unable to roll over its obligations. Greece owes seven billion that need to be repaid – bonds held by the European Central Bank and market participants," says Greece's former IMF representative Miranda Xafa. "Greece will not be able to meet those payments without external financing from official creditors."

Technically that would be the end of the line as far as Greece's membership in the eurozone is concerned, unless Greece and its creditors can figure out a way to keep the bailout process running.

Greece has achieved what many economists believe is the biggest fiscal adjustment in postwar developed economies. In 2009 it spent 15 percent of GDP more than it made in tax revenues. By 2014 it had balanced its budget, although Greece is still in deficit if one includes the money it has to spend repaying its debt.

Fund directors agreed that the Greek government needs to earn more in personal income tax. This has fallen from €11bn in 2008 to €7.6bn last year, as unemployment rose and salaries fell during the Great Recession of the intervening period. Directors also agreed that Greece has taken too long to settle the large outstanding bill taxpayers have with the government and consumers have with banks. Tax arrears stand at a record €95bn, while non-performing loans are estimated at over €100bn.