



Tough Love of IMF May Shock Greece

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If Greece believes the easiest way out of its financial crisis would be with the help of the International Monetary Fund instead of its European neighbors, it could be in for an unpleasant surprise.

Analysts say the IMF would probably demand tough conditions on Greece -- going beyond the budget cuts and tax increases the Greek government has already announced and even more than what its European Union partners would demand.

"It is politically inconvenient for European countries to force sensitive conditions on another member country," said Domenico Lombardi, a senior fellow at the Brookings Institution and a former member of the IMF's executive board.

The question of who will help Greece, and how, reaches a critical moment Thursday as European leaders meet in Brussels to try to come up with a plan aimed at easing the Greek debt crisis, which has already caused the value of the euro to fall.

The urgency of resolving Greece's financial problems goes well beyond one country and the 16-nation eurozone. An escalation of the crisis could rock worldwide financial markets at a time when many nations are making a slow recovery from the global recession.

The Greek government says it isn't looking for money but a detailed plan that would "exert influence" on markets and lower crippling interest rates that are undermining Greek efforts to shave billions of euros from its budget this year. Greece has ordered major spending cuts and an overhaul of the tax system, promising to slash its budget deficit from an estimated 12.7 percent of economic output in 2009 to 8.7 percent in 2010. The measures have led to strikes and protests.

Greek officials have said at various points that the IMF would provide loans without requiring further reforms or cuts. They have appeared to use the threat of going to the IMF as leverage with European leaders who may fear that bringing in the IMF would show that the EU is incapable of managing its own members.

The IMF has said it won't comment, as Greece has not yet requested assistance.

But analysts say it is very unlikely that the international lending institution would offer loans without insisting that Greece make further deficit reductions and open itself to strict IMF monitoring, a role they say the EU may not be capable of.

The IMF will almost certainly want stricter measures as part of a longer-term plan to bring down Greece's deficit, said Eswar Prasad, an economics professor at Cornell University and former economist at the IMF.

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Also, it is not clear that Brussels has the systems in place to monitor whether Greece was meeting its obligations, whereas that is a core function of the IMF.

A credible plan to bring the deficit down over the next several years could boost confidence and "actually make it easier for Greece to get out of this mess," Prasad said.

Analysts said Greece will need to borrow about 50 billion euros (nearly \$70 billion) to pay off debts that are coming due this year, a requirement that may require a solution involving both the EU and the IMF.

EU Commission President Jose Manuel Barroso has called on European governments to end dithering and agree on a detailed plan of financial help for Greece.

Germany has so far blocked efforts by European nations to come up with a bailout program, saying Greece isn't asking for help, isn't on the verge of bankruptcy and should turn to the IMF if it reaches a point that it can't borrow from markets. France and some EU officials had been opposed to IMF involvement. But ahead of Thursday's summit, it appeared that the EU diplomats were already looking for a compromise solution that would involve the IMF.

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