IMF May Take Back Seat in Greek Crisis Talks With Missed Payment

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The International Monetary Fund was always a secondary player in the group of creditors bailing out Greece. It's about to be pushed into an even less prominent role.

The institution was invited by Greece and European leaders to lend its financial firepower and expertise at the height of Europe's sovereign-debt crisis. Countries such as Germany have lauded the IMF as a voice of reason at the negotiating table, even though the fund's financial contribution has been smaller than those of its creditor partners including euro-area states and, more recently, the European Central Bank.

Now it's close to becoming more of a collections agency with Greece's anticipated failure to pay $1.7 billion it owes the fund on Tuesday. A missed payment would cut off the nation from further IMF funds, including the $19 billion that remains on its current bailout, while potentially limiting any IMF role in Greece to the kind of technical advice and training usually reserved for emerging markets or low-income countries.

"The Greeks are pushing them to the sidelines," said Desmond Lachman, a former IMF official who is now a resident fellow at the American Enterprise Institute in Washington. "What the IMF has to worry about is the arrears that Greece is now going to build up."

Greece doesn't plan to pay the money owed to the IMF on Tuesday, a government official said Monday, speaking on condition of anonymity in line with policy. The country has until about 6 p.m. Washington time to make the payment.

Fund Arrears

It would be the first time an advanced economy has fallen into arrears with the IMF, and the largest missed payment in the history of the fund, which was conceived during World War II to coordinate monetary policy and promote exchange-rate stability. The three countries currently in arrears to the IMF area Zimbabwe, Sudan and Somalia; others have included Cuba, Cambodia, Vietnam and Haiti.

The IMF joined the European Commission and the ECB five years ago in bailing out Greece amid fears a default might trigger a European banking crisis. While the region's banks have since reduced their exposure to Greek debt, the cost of the crisis may be Greece's membership in the euro area.

Greece shut its banks and imposed capital controls to avert the collapse of its financial system ahead of a surprise July 5 referendum in which Greeks will vote on the creditors' aid proposal.

Provide Assistance

IMF Managing Director Christine Lagarde said Sunday the fund will continue to monitor developments in Greece and countries in the region, and "stands ready to provide assistance as needed." Briefing the IMF's board, Lagarde said she "underscored our commitment to continue to engage with the Greek authorities."

“In reality, she should have said, ‘We stand ready to collect,’” said Martin Edwards, an international-relations professor at Seton Hall University in South Orange, New Jersey, who has researched IMF lending programs. “They will be in a wait-and-see mode. Greece is the one that knocked over all the chess pieces and went home.”

Without the ability to finance Greece, the IMF may have a more limited role as a provider of technical advice and training on issues such as monetary and exchange-rate policy. Even on that front, its influence may be curtailed, given the breakdown in talks with Greece on a debt deal.

If Greece is unable to pay the IMF for a protracted period, the country’s overdue obligations will quickly dwarf the combined $1.8 billion owed by Zimbabwe, Somalia and Sudan. Greece owes the fund $6.2 billion this year and $26 billion through 2030.

Undermine Support

The prospect of a euro-area country being responsible for the biggest unpaid debt to the IMF will undermine support among the fund’s 188 member nations for financing countries in Europe, said Andrea Montanino, a former IMF executive director who is now director of the Atlantic Council’s global economics program in Washington.

“After this episode with Greece, the IMF will be much more cautious with other euro-zone countries,” he said.

Private capital once flowed into countries that accepted IMF program conditions, said Eswar Prasad, a professor of trade policy at Cornell University and former head of the financial studies and China divisions at the IMF. That could change because of what’s happened in Greece.

“The failure of the IMF’s program with Greece will stain the institution’s reputation,” he said in an e-mail.