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Payment failure pitches IMF into uncharted territory

Shawn Donnan in Washington

An anti-IMF sign outside the University of Athens

Greece on Tuesday night became the first advanced economy to miss a payment to the International Monetary Fund in its 71-year history — a move that could unwind decades of precedent and have consequences for the fund's future rescues.

Under IMF rules Greece's failure to make a required €1.6bn payment by the close of business in Washington on Tuesday will have immediate repercussions: Athens will no longer be able to access IMF financing until it clears the debt. It also sets off a series of notifications and procedures that could eventually culminate in Greece losing its voting rights in the fund or even being kicked out.

The IMF's management did offer Greece one lifeline on Tuesday. It said it would put a Greek request for an extension to the fund's executive board "in due course". The board could, if countries holding 70 per cent of voting rights decide to do so, offer Greece some respite on grounds of "exceptional hardship". But that is seen as highly unlikely.

The bigger consequences lie in the symbolism of a country — which in recent weeks has taken to calling the IMF "a criminal syndicate" — thumbing its nose at an institution that since its creation at Bretton Woods has acted as a lender of last resort to troubled economies.

"The IMF has come out looking like it got caught in the midst of a game of political football where it was supposed to be the referee and it was not in control of the game," said Eswar

Prasad, a former IMF official now at Cornell University.

The IMF has only ever been defaulted on by smaller, developing members. The last time it happened was in 2001 when Robert Mugabe's Zimbabwe, which still has more than $110m in back debts, opted not to pay the fund. Greece's €1.6bn is also the largest ever missed payment by an IMF member.

There is further symbolism in the fact that Greece, which joined the IMF in 1945 and was among its founding members, is both European and far richer than many of the 188 countries that now belong to the fund.

As such, Mr Prasad said, it serves as a reminder that the IMF has in recent years returned to what was a familiar position in the 1970s and 1980s. At that time, its major work lay in bailing out developed nations rather than the emerging economies it set out to rescue in the 1990s and 2000s.

The missed payment comes at an awkward time for the IMF. Like its sister institution in Washington, the World Bank, the fund is fighting to retain its international relevance as emerging powers such as China set about creating rival institutions.

Douglas Rediker, who until 2012 served as the US representative on the IMF's board, doubted whether the fund's reputation would take a huge hit as a result of a missed payment by Greece.

"I do not think a non-payment to the IMF is going to undermine the IMF's stature as the leading macroeconomic policy adviser in the world," he said.

But, he added, "it is an unwelcome shock that is in no one's interest".

The missed payment could also carry practical consequences for future bailouts.

The IMF has long been the most senior creditor in any negotiation and its terms inviolable as a result. But there was now the possibility, Mr Rediker said, that small payments to the few Greek private creditors left could be made at a time when it is in arrears to the IMF, something that previously would been considered unthinkable.

It also opens the door to a discussion of how Greece will repay its debts to the IMF that was also considered unimaginable just weeks ago.

While IMF officials have insisted repeatedly in recent months that the IMF could never reschedule any Greek repayments as a matter of policy, the fund's rules do contain a provision that Athens could explore. Under article five of the IMF's articles of agreement the fund's board can vote to give members more time to repay the fund if it is facing "exceptional hardship".

That said, the IMF has not allowed any member to delay payments since 1982, when it did just this for Guyana and Nicaragua. The "exceptional hardship" provision, which requires the approval of more than 70 per cent of the board's votes, has also never been used before.

The question for the IMF now is just how exceptional the Greek situation really is.

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