

## FINANCIAL TIMES

---

Last updated: July 22, 2011 6:01 pm

# IMF poised to take backseat role in Greece rescue

By Alan Beattie in Washington

The International Monetary Fund will play a declining role in the international rescue support programme for Greece as the eurozone moves towards offering open-ended backing, according to current and former officials.

Christine Lagarde, the recently appointed managing director, strongly endorsed the rescue package announced in Brussels on Thursday, saying that the decisions “will have a positive impact not just for Greece and for Europe, but also for the global economy at large”.

But experts and officials involved in IMF discussions said that the fund would play an increasingly marginal role, focusing on giving its seal of approval to Greek policies rather than providing the loans.

Thus far, the IMF has provided about a third of the funding for the rescue packages in western Europe.

There has been increasing concern among non-European shareholder countries on the fund's executive board that the Greece lending programme is unsustainable, particularly given the limited size of the envisaged private debt restructuring.

The IMF's current commitment is 32 times the size of Greece's “quota”, or shareholding, in the fund – by far the highest multiple ever, the next biggest being South Korea's 1997 rescue loan, which was less than 20 times its quota.

Ms Lagarde on Thursday said that the IMF would continue to participate in the Greek rescue, but conspicuously failed to comment on its likely share of new financing.

“The IMF has been a junior financing partner, increasingly frustrated that it has been unable to control the terms of the debate and concerned that it has been captured by the Europeans,” said Domenico Lombardi, a fellow at the Brookings Institution think-tank who formerly represented Italy on the fund's executive board.

“It feels the need to shift more of the financing burden on to the Europeans to safeguard its own financial resources and try to protect its long-term credibility.”

The increase in official eurozone support led to relief among IMF management and some non-European shareholder countries, who said it meant Europe was essentially underwriting the bail-outs.

“We go away with a much more solid view of the confidence that the eurozone members have in their own destiny,” Ms Lagarde said.

US officials, while they did not comment on the debt restructuring part of the package or the possibilities of new IMF lending, made a point of welcoming the official financing part of Thursday's eurozone agreement.

Some experts said the question remains of whether the IMF should be involved at all, given its inability over the past year to coax the eurozone authorities into a coherent strategy for rescuing Greece. But most current and former officials said that, at the margin, the presence of the IMF in the bail-out added credibility and was worth the risk to its own reputation.

“The IMF's continued involvement... will give it some leverage and involvement in assessing Greece's execution of fiscal and reform measures,” said Eswar Prasad, formerly head of the fund's China division.

The fund's insistence on more generous financing from Europe before signing off on its part of the lending had been important in getting the eurozone authorities to act, he said.

Printed from: <http://www.ft.com/cms/s/0/3754376e-b479-11e0-a21d-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2011 FT and 'Financial Times' are trademarks of The Financial Times Ltd.