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IMF loan set for approval in coming days

By Brian Beary in Washington | Thursday 06 May 2010

The €30 billion loan Greece is requesting from the International Monetary Fund to save it from economic meltdown will be submitted to the IMF's Executive Board on 9 May for approval. IMF Managing Director Dominique Strauss-Kahn, who helped broker an agreement on the loan with Greece and the EU, on 2 May, is stressing its unprecedented size. "This represents the largest access to IMF reserves granted to a member country" and is "equivalent to 3,200% of Greece's quota in the fund," according to Strauss-Kahn. Greece, an IMF member since 1945, has no outstanding debt with the fund.

The European Central Bank's representative in Washington, Georges Pineau, speaking at a seminar on the eurozone crisis on 4 May, also emphasised how historically high the IMF loan was. It accounted for 12% of Greek GDP, whereas the median IMF financing over the last fifteen years has been 7% of GDP, Pineau told an audience at the Johns Hopkins University School of Advanced International Studies. The last time the IMF approved such a big package was for South Korea in 1997, he noted. Under the deal announced on 2 May, the IMF has agreed to foot 27% of the Greek bailout bill, while Athens' fifteen eurozone partner states will pay 73%, or €80 billion.
During the seminar, which was unusually well-attended by Washington officials, diplomats and academics, both the ECB's Pineau and Antonio de Lecea, the principal economics advisor at the EU Delegation in Washington, assured their audience the euro would survive this crisis. Despite many apocalyptic predictions from commentators, "we can be sure that the euro will outlive us," de Lecea said. Pineau said there was "nothing exceptional" with the drop in Greece's GDP, minus 8.6% between 2009 and 2011, when compared to other EU countries, noting Ireland's GDP had dropped 13% from 2008-2010 and Latvia's 22%.

BANDAGE OR CURE?

Their arguments failed to convince fellow panellists. Uri Dadush, director of the International Economics Programme at the Carnegie Endowment for International Peace, said "the rescue package will buy time, maybe a year" but that "Greece will come back for more money" unless drastic steps were taken. Dadush warned of a "deeper disease" caused by Greece, Ireland, Portugal and Spain having, since joining the euro, grown much less competitive due to soaring labour costs. His proposed cure was to lower labour costs and raise labour flexibility, to restructure Greece's debt, and to persuade less shaky economies like Germany to increase domestic consumption. Economics Professor Steve Hanke from Johns Hopkins University said "the bandage will probably work" in the short term but Greece needed "an economic revolution" to resolve its "unbelievable structural problems". De Lecea insisted the EU-backed Greek reform package was "not a bandage but goes to the roots of Greek society," adding "it is maybe the last opportunity for them to put their house in order".