Greece faces ‘explosive’ surge in public debt, IMF warns

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Greece faces what is likely to be an “explosive” surge in its public debt levels that within decades will mean it will owe almost three times the country’s annual economic output unless given significant debt relief, the International Monetary Fund has warned in a confidential report.

The new report was prepared by IMF staff ahead of a February 6 board meeting to discuss the fund’s participation in an EU-led €86bn bailout of Greece and signals the continuing hard line the IMF is taking on debt relief for Athens. It offers a bleaker view of Greece’s economic dilemmas than an analysis prepared last year, warning that the debt load is “highly unsustainable” and would not improve even if it implemented further reforms recommended by the fund.

That assessment would, under the fund’s own rules, prohibit the IMF from taking part financially in the current bailout, something countries such as Germany have made a condition of their own support.

“Even with these ambitious polices in place, Greece cannot grow out of its debt problem,” IMF staff warned in the report, seen by the Financial Times and drafted as part of the fund’s annual review of member economies. “Greece requires substantial debt relief from its European partners to restore debt sustainability.”

The IMF declined to comment, citing a policy of not commenting on leaked material.

The fund calculated that Greece’s debt load would reach 170 per cent of gross domestic product by 2020 and 164 per cent by 2022, “but become explosive thereafter” and grow to 275 per cent of GDP by 2060.

In its report the fund cites the heavy burden borne by the Greek people as part of the economic crisis they have been battling since 2010 and repeats a call for a less aggressive fiscal adjustment than the EU has been pushing for. It also calls for further reform of the Greek pension system and improvements in tax collection, as well as the establishment of a more robust safety net to help those affected most by the crisis.

But the IMF’s view on debt remains the most crucial and politically sensitive in Europe and particularly Germany, where Angela Merkel is battling for re-election this year.

Jeroen Dijsselbloem, the eurogroup president, said this week after a meeting of the group’s ministers that the desire to have the IMF on board had not changed.

“A number of member states are adamant on the IMF’s involvement,” he told reporters.

Michel Sapin, France’s finance minister, warned after that meeting that the “window of opportunity” for a deal on the next stages of Greece’s bailout programme was closing due to the series of elections this year in Europe.

It is widely feared that failure to resolve the Greek debt issue could knock the bailout programme off course and destabilise Greece.

But euro area ministers have also taken a more optimistic view than the IMF of Greece’s woes. After a meeting in Brussels on Thursday a number stressed that Athens was comfortably exceeding primary surplus targets set under the €86bn bailout programme.

Mr Dijsselbloem, who is also the Dutch finance minister, said that Greece was recovering faster than anyone expected.

In its report the IMF said it expected Greece’s GDP to grow 2.7 per cent this year after returning to growth last year.