EU's Olli Rehn lashes out at IMF criticism of Greek bailout

FT ft.com/cms/s/0/ed72d2ac-cf4e-11e2-be7b-00144feab7de.html

By Peter Spiegel in Helsinki and Kerin Hope in Athens *Financial Times*, June 7, 2013

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Olli Rehn, the European Commission's economic chief who has been responsible for Brussels' management of Greece's two bailouts, lashed out at the International Monetary Fund's criticism of the rescue .

Mr Rehn compared the IMF's harsh report of its and the EU's handling of the first €110bn bailout in 2010 with a breach of the transatlantic "in together, out together" principle developed in the Balkans war in the 1990s.

"I don't think it's fair and just for the IMF to wash its hands and throw the dirty water on the Europeans," Mr Rehn said at an economic conference in Helsinki on Friday.

The IMF report, published on Wednesday, argues that a restructuring of Greek debt should have occurred in early 2011 when it became clear that the bailout programme was veering off track but says such a move was blocked by European officials. A €200bn sovereign debt restructuring did not happen until February 2012.

Mr Rehn's rebuke follows a clear EU rejection on Thursday of the IMF's criticism. The EU said European policy makers "fundamentally disagree" with the fund's argument that an upfront debt restructuring in 2010 would have been desirable and added that the report ignored how interconnected the euro area is.

In a brief interview with the Financial Times after his public remarks, Mr Rehn took direct fire at Christine Lagarde, the IMF managing director who agreed the first Greek bailout as French finance minister in 2010, noting that she had resisted any debt restructuring during her tenure in the government of Nicolas Sarkozy. He also said Dominique Strauss-Kahn, Ms Lagarde's predecessor at the IMF helm, had never advocated it, either.

"I do not recall Dominique Strauss-Kahn calling for an early restructuring of Greek debt but I do remember Christine Lagarde opposing it," Mr Rehn told the FT.

However, according to one Greek official involved in the process, Athens expected the fund to take the lead on the debt restructuring because its experience. Tensions emerged between the EU and IMF officials during missions to Athens, he said, adding that commission staff "get lost in the detail".

The official said: “When you negotiate with the troika [EU, IMF and European Central Bank], it’s the fund that calls the shots.” He agreed with the report’s view that the commission “tended to draw up policy positions by consensus, had enjoyed limited success with implementing conditionality under the stability and growth pact and had no experience with crisis management.”

Greece debt crisis

Greece struggles on with drastic austerity as eurozone leaders continue to argue over how to help the country cope with its debt mountain

Mr Rehn’s remarks reflect the sentiments of many who have been involved with the Greek programme from the start, even within the IMF itself, where some fund staff believe it is overly critical of their work. These officials believe they had solid commitments for economic reforms from the government of George Papandreou at the start in May 2010 that, if properly implemented, would have helped keep the programme on track and avoid a sovereign default.

The failure of the Greek government to follow through with the reforms crippled the bailout and made the original IMF and EU growth projections appear wildly optimistic.

In a conference call on the day the IMF report was published Poul Thomsen, the head of the IMF mission to Greece, said: “Growth assumptions were too optimistic for a number of reasons – including, as the report said, that because of . . . the limited administrative capacities of Greece, these were ambitious assumptions.

“The Article IV report also makes the point that Greece has been in . . . continued political turmoil since the beginning of 2011, and, clearly, that has not been consistent with the implementation of reforms at a pace that we had assumed.”

Foot-dragging by Greek policy makers and the country’s divisive party politics were instrumental in the failure of the first bailout programme.

Miranda Xafa, former Greek representative to the IMF said: “There was much resistance [to reform] in politically sensitive areas like downsizing the public sector, privatisation and opening up the professions. The recession would not have been so deep if the government had tackled these three areas. Instead they kept bombarding the private sector with taxes to preserve the bloated public sector.”

Austerity Europe

Europeans are braced for a new age of austerity as governments across the region take action to eliminate unsustainable budget deficits

Greece made a strong start on fiscal and structural reforms in mid-2010 under George Papandreou, the socialist prime minister who signed up to the first EU-IMF bailout.

But within a few months the government was delaying unpopular measures agreed with the troika: overhauling the tax system to reduce chronic tax evasion, shrinking the public sector payroll and liberalising so-called closed professions – among them pharmacists, lawyers and road haulage – to boost competition.

The socialists were “terrified” of implementing public sector reforms because state workers provided the bulk of their votes, said a former government adviser who declined to be identified. They backed off from launching a €50bn privatisation programme and froze civil service reform.

By spring 2011, the programme was “irredeemably off-track and a debt restructuring had become inevitable, even though Mr Papandreou was still insisting Greece would pay its debts in full,” another former adviser said. Violent anti-austerity protests in Athens and defections by socialist backbenchers further weakened the government. The IMF called 2011 “a wasted year.”

Papandreou threw in the towel in November that year, leaving a coalition government under a former Greek central bank governor to negotiate a new €172bn bailout deal and oversee a €200bn debt restructuring before taking the country to elections.

The second programme is on track, according to the IMF, with civil service payroll cuts and tax system reforms due to be implemented this month by premier Antonis Samaras’s year-old coalition government.