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IMF Scales Back Aid to Greece in Nation's 2nd Rescue Package

By Jonathan Stearns and Ian Katz - Mar 10, 2012

The International Monetary Fund intends to contribute 18 billion euros ($23.6 billion) in fresh funds to the second aid package for Greece, scaling back IMF help for the nation that triggered Europe's debt crisis.

The planned IMF contribution disclosed yesterday represents 14 percent of the 130 billion-euro second rescue of Greece being arranged with the euro area. The IMF accounted for 27 percent -- or 30 billion euros -- of Greece's initial 110 billion-euro bailout in May 2010.

"The IMF is trying to manage a difficult balance between staying involved in the rescue package for Greece while limiting the risk to its own funds," Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF official, said in an e-mail. The IMF is "increasing its overall exposure to Greece. This poses both financial and political risks for the fund."

Two years after German Chancellor Angela Merkel insisted that the IMF play a role in aiding Greece and any other distressed euro government, the Washington-based lender has joined the U.S., Canada and other nations in pressing Europe itself to do more to stem the debt crisis.

Germany, the biggest economy in Europe, has repeatedly stalled over bolstering the euro area's bailout firepower amid skepticism in the country about the merits of aiding euro nations that flouted European budget-discipline rules.

Smaller Role

The smaller IMF role in the latest Greek bailout leaves 112 billion euros to be provided by the euro area's rescue fund, the European Financial Stability Facility, which sells debt to finance emergency aid. The EFSF has a capacity of 440 billion euros.

IMF Managing Director Christine Lagarde said yesterday that she plans to recommend 28 billion euros in financial aid for Greece to support its "ambitious economic program over the next four years."

The 28 billion euros that Lagarde is proposing include 9.7 billion euros that remained from the previous support package, the IMF confirmed in an e-mailed statement yesterday. The entire 28 billion euros will need to be approved by the IMF executive board.

"Restoring competitiveness and a sustainable fiscal position will require Greece to undertake sustained and deep structural reforms over a prolonged period," Lagarde said in a statement in Washington. "The scale and length of the fund's support is a reflection of our determination to remain engaged."

Biggest Restructuring

Greece yesterday pushed through the biggest sovereign restructuring in history after getting private investors to forgive more than 100 billion euros of debt, opening the way for the second bailout.

Euro-region finance ministers agreed that, with the swap, Greece had met the terms for the 130 billion-euro rescue package arranged with the IMF. Ministers freed up 35.5 billion euros in payments and interest for bondholders, with a decision on the balance of the bailout funds to be made at a March 12 meeting in Brussels.

Greece's debt swap "exceeded expectations" and gives the country a "realistic chance" to pare down its debt and recover, Finnish Prime Minister Jyrki Katainen said in an interview today on state-owned broadcaster YLE TV1.

The euro area's 80 billion-euro share of the first Greek rescue of 110 billion euros came from national governments. The Luxembourg-based EFSF was not involved in that package.

The EFSF is committed to providing a total of almost 44 billion euros to the rescues of Ireland and Portugal that followed the initial Greek bailout.

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