The International Monetary Fund has published a scathing report about how it and the European Union handled Greece’s first €110bn bailout, saying growth assumptions were too optimistic and that debt restructuring should have occurred earlier.

The study says that the rescue went ahead even though Greece did not meet one of the IMF’s four criteria for such a huge programme – a good chance of debt sustainability in the medium term – and may have failed two of the others as well.

The report is likely to become a textbook case for all large IMF rescues in the future, with the fund demanding greater losses for private creditors, more realistic growth and debt forecasts, and changes when it operates inside a monetary union.

It exposes disagreements among the international lenders overseeing Greece’s rescue and has generated controversy even within the IMF itself.

The “programme avoided a disorderly default and limited euro-wide contagion. Greece has also been able to remain in the euro, but the recession has been deep with exceptionally high unemployment. The programme did not restore growth and regain market access as it had set out to do,” says the report.

According to the study, the decision to force losses on private holders of Greek bonds should have occurred much earlier than October 2011, but it argues that resistance from Europe made that impossible.

“Not tackling the public debt problem decisively at the outset or early in the programme created uncertainty about the euro area’s capacity to resolve the crisis and likely aggravated the contraction in output,” it says.

“An upfront debt restructuring would have been better for Greece although this was not acceptable to the euro partners. A delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands.”

Once it became clear Greece’s first bailout was not working, IMF and eurozone leaders agreed to a second €172bn bailout in February last year, a deal that included the €200bn restructuring of privately held debt.

It remains the largest sovereign default in history, and eurozone officials have vowed they will not repeat the haircuts in other heavily indebted eurozone countries.

The report argues that IMF staff knew imposing a fiscal squeeze on Greece would be especially painful, but failed to translate that into their growth forecasts, assuming a low “multiplier” from tax rises and government spending cuts.

“The programme initially assumed a multiplier of only 0.5 despite staff’s recognition that Greece’s relatively closed economy and lack of an exchange rate tool would concentrate the fiscal shock,” it says.

The report also says that IMF staff were too optimistic about Greece’s ability to implement reforms. “As it turned out, ownership of the programme did not extend far and little progress was made with politically difficult measures such as privatisation, downsizing the public sector, and labour market reforms.”

It says that there were “occasionally marked differences of view” within the troika of the IMF, EU and European Central Bank which managed the Greek programme. The report says that none of the partners “seemed to view the arrangement as ideal” but, given that, “co-ordination seems to have been quite good under the circumstances”.

By Peter Spiegel in Brussels and Robin Harding in Washington

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Despite all the self-criticism, however, the IMF says that it was correct to go ahead with the Greece programme because of “the considerable dangers for the euro area and the global economy should Greece have been allowed to default”. It also says that there was little alternative to very rapid deficit-cutting, given the size of Greece’s deficit and financing needs.

“The [review] shows that macroeconomic assumptions were over-optimistic throughout the programme, especially for economic growth and fiscal revenues,” said Paulo Nogueira Batista, the executive director for Brazil and a group of other countries at the IMF.

He also criticised the troika arrangement. “More often than not, the executive board seemed to be in tow of decisions already announced in Brussels,” said Mr Nogueira Batista. “To make matters worse, in the case of Greece, the Fund’s lending policies were changed in a casuistic way to accommodate European interests.”