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# The Greek default: Four obvious questions

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Pro-European Union protester demonstrate in front of the Parliament in Athens on 30 June 2015. Photo: AFP

Greece missed the 30 June deadline to repay $1 billion it owed to the International Monetary Fund (IMF), becoming the first developed nation to default on an IMF payment. Even though Prime Minister Alexis Tsipras has asked for aid from other euro zone countries, a deal is unlikely to come through before the 5 July referendum in the country.

**1. What happens to IMF defaulters?**

The missed payment by Greece is the largest in the history of the IMF. Nations that miss IMF payments are ineligible for further funds as long as they are in arrears. The lender's procedures for dealing with overdue borrowers stretch over two years and can lead to expulsion from the fund's membership.

Three major credit-rating companies have said failure to pay the Washington-based IMF wouldn't constitute a default because that term is reserved for private-sector creditors, and the IMF avoids the word.

There's little chance that the fund will approve Greece's request for an extension, said Andrea Montanino, a former IMF executive board member who now heads the global economics program at the Atlantic Council in Washington, said a Bloomberg report

**2. How did it all start?**

The root of the problem can be traced to the years before 2008. Greece had already allowed massive economic imbalances to build up.

In 2009, Greece reported economic numbers that were dodgy. They had overstated their reserves, growth and reported false fiscal numbers.

Suddenly, Greece was shut out from borrowing in the financial markets. By the spring of 2010, it was veering toward bankruptcy, which threatened to set off a new financial crisis, according to a New York Times report

"The euro was based on all countries sticking to fiscal prudence and inflation. That was the only way that the common currency could work. When they revealed that they were bankrupt in 2010 as they had borrowed more than they could service, and that they had no money to back up debt, the crisis erupted," said Madan Sabnavis, chief economist, CARE Ratings.

It was then that the so-called troika — the IMF, the European Central Bank (ECB) and the European Commission — stepped in with a bailout package for Greece. However, there were conditions to the bailout.

"Lenders imposed harsh austerity terms, requiring deep budget cuts and steep tax increases. They also required Greece to overhaul its economy by streamlining the government, ending tax evasion and making Greece an easier place to do business," said the NYT report cited earlier.

But even with that, the economic condition in Greece did not improve and its ability to repay debt deteriorated.

**3. So where did all the money go?**

"The money was supposed to buy Greece time to stabilize its finances and quell market fears that the euro union itself could break up. While it has helped, Greece's economic problems haven't gone away. The economy has shrunk by a quarter in five years, and unemployment is above 25%," said the NYT report.

The bailout money mainly goes toward paying off Greece's international loans, rather than making its way into the economy, said the report.

"The inability to repay the IMF loan shows that the Greek government is nearly bankrupt. There is more debt to be repaid to ECB and other creditors this month and through the year," said Dharmakirti Joshi, chief economist, CRISIL.

**4. What happens next?**

All eyes are now on the 5 July referendum. On that day, Greeks will either choose to agree to the troika's austerity demands or reject it, which could eventually lead to the country's ouster from the euro.

Even a 'yes' vote does not guarantee a safe future for Greece.

Unpublished documents compiled by the troika said that Greece would face an unsustainable level of debt by 2030 even if it signs up to the full package of tax and spending reforms demanded of it, The Guardian reported.

The documents support Greece's argument that it needs substantial debt relief for a lasting economic recovery. They show that even after 15 years of sustained strong growth, the country would face a level of debt that IMF deems unsustainable.

If Greece votes no, it will be out of the euro, at least in practice, this time next week. A new currency will be issued and it will immediately start to depreciate against the euro.