The International Monetary Fund has given austerity a butt-kicking in Greece. The Washington lender is admitting it miscalculated the effects of aggressive fiscal belt-tightening on the Mediterranean nation. As a result, the IMF will be more reluctant to impose pain on citizens of crisis-afflicted nations. That probably means more sacrifice in the future for creditors.

An IMF admission of failure in Greece was overdue. The fund’s army of economists had expected Greece’s economy to shrink by just 5.5 per cent between 2009 and 2012. The actual contraction was more than three times greater. The main culprit, the IMF now believes, was that official lenders insisted on unrealistic cuts in government spending and tax increases, along with a reluctance to write down privately held debt.

The mea culpa, expected on Thursday in an internal report according to the Wall Street Journal, marks another step in the IMF’s rejection of self-defeating austerity. Only last year the IMF warned that fiscal retrenchment inflicted more harm on growth than previously suspected – the so-called “fiscal multiplier.” More recently the IMF has been warning the United States and the United Kingdom that they risk derailing growth by attempting to repair public finances too hastily.

The IMF’s latest swipe against austerity is likely to make embarrassing reading for the European Commission, which helped draw up the terms of the Greek rescue. It should also strengthen Greece’s case for debt relief.

The bigger implication, however, may be for future bailouts. By highlighting the deleterious effect of aggressive cutbacks, the latest report should help steer the fund to more growth-friendly policies. It will also provide evidence of the need for bondholders to bear a greater burden. Recent bailouts look to have been insufficiently harsh to fixed-income investors. Many Greek bondholders were paid at par until the IMF belatedly forced remaining investors to take a haircut in 2012. Such generosity, a mistake currently being repeated in the Cyprus rescue, has increased the need for spending cuts and tax increases to repair public finances.

The IMF has long been criticized as promoting fiscal rectitude at any cost. Recognizing the limitations of this policy is an important step. The real challenge is making sure the sins of the past won’t be repeated.