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EUROPE

SECOND GREEK BAIL-OUT

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Europe's Finance ministers worked through the night of 20 to 21 February to hammer out the terms of the second Greek bail-out to the tune of EUR 130 bn. While the markets have responded coolly to the deal, ministers remain optimistic that enough has been done to stem the contagion to the rest of the Eurozone.

Many experts remain skeptical as to whether the bail-out will be enough to save Greece from ultimately defaulting. Some suggest that it has merely averted a "very disorderly default". There are serious doubts in the market as to whether Greece's already crippled economy can rebound in the face of more and tougher austerity measures. However, at least for now, Greece has been thrown the life-line it needed from the Eurozone. Eurozone ministers (including Greece's) are adamant that they do not want Greece to leave the Eurozone, either voluntarily or by force.

There are still conditions to be met before the bail-out funds will be released: notably several of the "triple AAA" Eurozone members parliaments need to approve the plan and the Greek PSI creditors will need to accept a larger "hair-cut" than originally agreed.

The key points of the second Greek programme are broadly summarised below:

- EUR 130 bn of funds;
- The funds will be place in an escrow account[1] and will be released subject to certain conditions and targets being met – this also means that the funds can be more easily clawed back if Greece fails to meet those conditions and targets;
- Additional austerity measures (most of which have either been approved or will be pushed through Greek parliament) to further cut government spending put in place that will reduce Greece's debt-to-GDP ratio to 120.5% of GDP by 2020, close enough to previous targets;
- PSI creditors will need to take a bigger loss of 53.5% (previously this was 50%) of the face value of their bonds;
- The ECB will pass any profits it makes on Greek bonds back to the Greek national central bank;
- The interest rate charged on bilateral loans under the first package will be reduced to 150 base points over Euribor; and
- A "strengthening" of the Troika's[2] presence in Greece.

Greece must now (re)start negotiations with its private creditors regarding the additional "hair-cut".

[1] An escrow account is an account that is held separate from the beneficiaries and in respect of which funds are only released from it subject to the fulfillment (or waiver) of certain conditions.
[2] The Troika is made up of representatives from the IMF, ECB and the EU.