

Eurozone Summit

Euro leaders agree EUR109 billion dig-out for Greece

By Sarah Collins | Friday 26 August 2011

Eurozone leaders have agreed an massive new bailout deal that is worth a total of €109 billion to Greece over the next three years. The package includes new loans shared between the bloc's financial stability facility and the IMF, €37 billion raised through private sector bond swaps or rollovers, and €12.6 billion saved through a buy back of Greek sovereign debt. Greek premier George Papandreou said the loan would “*create a sustainable path for Greece*”, which is struggling under a €350 billion debt mountain that threatened to sink the government and throw the rest of the eurozone into disarray. “*Greece will pay back its debt*,” French president Nicolas Sarkozy told reporters after the deal had been inked.

German chancellor Angela Merkel hailed the deal, saying that it would not wave a “*magic wand*” over the country's problems but help it “*return to a path of sustainability*”. Merkel had made the contribution of banks, insurers and pension funds conditional on German involvement in a second Greek bailout, despite threats by ratings agencies to declare Athens in partial or “selective” default on its debts. The European Central Bank (ECB) said it would not countenance such a move, declaring that it would stop accepting Greek sovereign bonds from the country's banks as collateral for emergency liquidity, an essential lifeline without which the system would collapse. In a statement released after an all-day summit on 21 July, leaders tacitly acknowledged the possibility of a partial default, saying that they would shore up any private sector involvement with “credit enhancements” - effectively guarantees - to ensure the bonds could still be used as collateral. If that fails, they said, “*we will provide adequate resources to recapitalise Greek banks if needed*”.

According to a statement released by the Institute for International Finance, representing the world's largest banks, creditors will roll over and exchange their Greek bonds for maturities of either 15 or 30 years, part-backed by guarantees - probably from the AAA-rated EFSF - and part invested in an “escrow” or guarantee fund. The move is supported by 30 banks and insurers, including Germany's Allianz and Commerzbank and Deutsche Bank as well as France's BNP Paribas and Greece's five biggest lenders, who hold 67% of the government's outstanding sovereign debt.

ECB president Jean-Claude Trichet welcome the “*renewed engagement*” of leaders to “*assure the financial stability of the eurozone*”. IMF chief Christine Lagarde, who was also at the meeting, said the favourable financing terms would “*help restore growth, improve Greece's debt sustainability and provide the basis for a return to market access*”.

EFSF BOOST

Separately, eurozone leaders also agreed to boost the bloc's financial stability facility (EFSF), the €440 billion fund that has been used to aid Ireland and Portugal, to allow it greater power to intervene to help ailing countries. It will in future be allowed to extend precautionary IMF-style credit lines, funnel cash into countries for bank recapitalisations and intervene to buy up sovereign bonds of indebted states in secondary markets, on the say-so of the ECB in “exceptional circumstances”.

All countries currently borrowing from the fund will be entitled to the same rate reductions and lengthened repayment terms, ending a long battle between Ireland and France that saw Taoiseach Enda Kenny become embroiled in what he called a Gallic spat with the French leader in March. Nicolas Sarkozy had insisted that Ireland raise its 12.5% corporate tax rate in exchange for any concessions on the interest rate, but Mr Kenny said that the issue was now *"fini"*.

MARSHALL PLAN

The bailout deal will be coupled with a European "Marshall Plan" to boost growth and investment in the country, where the economy has shrunk by almost 10% since its debt problems first began to spiral out of control in late 2009. The plan, a reference to the postwar aid offered by the US to 16 European countries, will include upfront structural funding of around €1 billion announced last month by European Commission president José Manuel Barroso. The EU executive has this week set up a task force - split between Brussels and Athens - to help Greece draw down the money. Greece has been consistently unable to use up all the structural funding it is allotted under the EU budget. According to the Commission, only a quarter of the €20 billion Greece has been promised up to 2013 has so far been spent.

Eurozone leaders also agreed to boost the bloc's financial stability facility (EFSF)

Eurozone summit - the main points:

A €109 billion second bailout for Greece, at lower interest rates of around 3.5% and with loan maturities of between 15 and 40 years, with a contribution by the IMF; the new money is to come from the European Financial Stability Facility (EFSF), the 440 billion euro fund being used in part for Ireland's and Portugal's bailouts

«Substantially» lengthen loan maturities under Greece's first 110 billion euro bailout

Encourage the private sector to contribute up to 37 billion euro between 2011 and 2014

Lend the Greek government money to buy back its bonds at a discount, saving it 12.6 billion euro

Boost the power of the EFSF so it can offer IMF-style precautionary credit lines, recapitalise banks and buy up bonds in secondary markets (only in exceptional circumstances and on the say-so of the ECB); the changes will also be applied to the future EU stability mechanism, which will take over crisis lending from mid-2013

Lower interest rates and lengthen maturities for Ireland and Portugal, in line with the EFSF discounts offered to Greece

Create a kind of European «Marshall Plan» for Greece, frontloading EU infrastructure aid to help boost jobs and growth.