News

Eurogroup Agreement: pragmatism and compromises to avoid Greek contagion

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Rather than a punishment, a reprimand. The euro zone countries acknowledged a “partial default” of the Greek debt, following the failure of the first financial rescue plan worth €110 billion.

But this is a controlled default. The latest plan, which was approved in Brussels yesterday, alleviates the market pressure on Greece and even creates an embryo for the European Monetary Fund, to help other debilitated economies.

The 17 euro zone countries and the IMF gave Greece more money and more time to pay the debt: €109 billion in additional funding, with a cut in the interest rates on the debt and extended the maturity to up to 30 years.

“We needed a credible package, we have a credible package. It involves the concerns of the markets and the citizens. It also responds to the concerns of all the member states”, José Manuel Barroso, the European Commission president said.

In order to amortise Greece’s partial default and avoid speculation not only about that country’s debt, but about the Irish and Portuguese debt too, the 17 drove the creation of a European Emergency Fund, which they started to talk about in March.

The Stabilisation Fund, which is to be endowed with €440 billion within a few months, can buy sovereign debt on the secondary market, recapitalise Greek banks and amortise the temporary impact of a partial default declaration by the rating agencies.

The intervention of private investors was the most sensitive question. However, 90% of the creditors agreed to delay withdrawing €50 billion until 2014 and €106 billion until the end of the decade.

“The governments support the new programme for Greece, with a voluntary contribution by the private sector”, Jean-Claude Trichet, the chairman of the European Central Bank said.

The Greek prime minister, George Papandreou, added: “Now we have a programme, a package and decisions that create a sustainable path for Greece, a sustainable management of the Greek debt. At the end of the day, this will not only mean the funding of a programme, but also the lightening of the burden on the Greek people.”

Lastly, the European Union will boost a “Marshall Plan” so Greece becomes more competitive and sees economic growth after years of stagnation.

Another measure that was announced is the release of €15 billion of the €20 billion in structural funds until 2013. Brussels is also going to announce the co-funding rate of the reimbursed projects.

In all, the measures are expected to reduce Greek debt by €26 billion. The only solution that enable the country to see any light at the end of the tunnel.