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Eurozone agrees €110bn Greece loans

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Eurozone finance ministers on Sunday approved a €110bn ($146bn) package of emergency loans aimed at averting a sovereign default by Greece and preventing a confidence crisis spreading to countries such as Spain and Portugal.

The loans to Greece from the eurozone countries and the International Monetary Fund were described by IMF officials as "big and unprecedented". The details of the package were thrashed out at a meeting of eurozone finance ministers last night. Eurozone countries are to contribute €80bn of the total.

Angela Merkel, the German chancellor, expressed confidence that the Greek package was credible and sustainable. "I believe it is the only possibility we have to ensure the stability of the euro," she said at a press conference in Bonn.

The European finance ministers' meeting followed Greece's agreement on Sunday to enhanced austerity conditions in return for the loans. Under these, the country is expected to reduce its budget deficit from 13.6 per cent of gross domestic product to below 3 per cent by 2014, and to stabilise the public debt at about 140 per cent of GDP, even though it is expected to peak at almost 150 per cent of national income.

The package includes tough measures to reduce the size of Greece's bloated public sector, cuts in public sector salaries and pensions, a rise in value added tax and an increase in fuel, alcohol and tobacco taxes.

The austerity measures would hit the economy hard, the Greek finance ministry accepted, as it revised down its economic forecasts and projected that the economy would contract 4 per cent this year and 2.6 per cent next year.

"It is an unprecedented support package for an unprecedented effort by the Greek people," George Papandreou, Greek prime minister, said.

In Brussels, José Manuel Barroso, the European Commission president, described the agreed set of measures as a "solid and credible package".

Barack Obama, the US president, told Mr Papandreou that he welcomed Greece's "ambitious" reform programme as well as the "significant support" provided to the country by the IMF and Eurozone members.

The European Central Bank's governing council welcomed the rescue deal. "The programme is comprehensive and supported by strong conditionality," it said.

But the ECB added: "The governing council also considers essential that the Greek public authorities stand ready to take any further measures that may become appropriate to achieve the objectives of the programme."

Ms Merkel's government is likely to face highly critical questioning in parliament, and a challenge in the constitutional court, before it can finally sign off on the package by the end of the week. Members of parliament are angry about the government's lack of transparency in negotiating the deal,and the sheer scale of German lending that is expected.

In defending her tough line in refusing to accept any earlier bail-out plan for Greece, Ms Merkel said it would have been "unthinkable" for Athens to accept such tough conditions three months ago. She said that involvement of the International Monetary Fund, the subject of strong differences within the German government, would give the programme "maximum credibility" around the world.

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