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New Greek bail-out to prioritise debt holders

By Peter Spiegel in Brussels and Hugh Carnegie in Paris



Greek unions went out on strike on Tuesday

European officials are insisting that any new bail-out programme for Greece earmark funds specifically to pay off remaining holders of Greek debt, giving lenders the freedom to withhold aid to Athens without risking a messy default that could reignite panic in financial markets.

Under a new Franco-German plan that senior European officials said was likely to be included in a new Greek rescue, eurozone officials would create an escrow account to accept new bail-out funding instead of

paying it all directly to Athens, as in the past.

The new fund would then ensure bondholders were paid off while additional cash to run the Greek government could still be withheld if Athens did not live up to tough new reform demands.

In Athens, leaders of the three political parties in the national unity government were to meet on Tuesday afternoon to agree on reforms, the prime minister's office said.

A government official said the meeting had been postponed from Monday because more work was needed on the 50-page text of the medium-term fiscal programme that the three leaders have to approve before the eurogroup meeting.

Greek unions have called a general strike for Tuesday and are planning a large demonstration outside parliament.

A senior French official said the Franco-German plan, which has backing from the European Commission in Brussels as well as several other eurozone countries, was a way of "removing the Damocles sword of default" while keeping pressure on Athens to reform.

The idea of prioritising debt payments was included in a controversial German proposal circulated to eurozone finance ministry officials last month, which also called for a "budget commissioner" with veto authority over Greek spending decisions.

Eurozone officials said they believed the escrow account would give European Union and International Monetary Fund lenders strong control over Greece's use of bail-out funds without stripping Athens of its budgetary sovereignty. "This is a better idea than the proposal of a debt commissar," said the senior French official. "It is more acceptable."

Although the idea originated in Berlin, Nicolas Sarkozy, French president, embraced it during a news conference with his German counterpart, Angela Merkel, after a joint cabinet meeting between the two governments in Paris. Ms Merkel also signalled her support, saying it would ensure "this money will be reliably accessible".

Relations between Athens and eurozone lenders have soured as talks over a new €130bn bail-out drag on. Eurozone lenders reacted angrily on Monday to a further day of delay as Greece's political leaders continued to wrangle over the austerity measures demanded in exchange for the bail-out.

Finance ministers from the eurozone countries were again forced to put off a meeting to finalise the rescue programme. Originally scheduled for Monday, the meeting was then pushed back until Wednesday but a senior European official said it was now likely to be held at the end of the week or this weekend.

"It is still possible to avoid a disorderly default [but] the delays have been damaging," said the official. "They have dangerously increased the degree of uncertainty and they are entirely due to the Greek side."

Although European officials said progress had been made in talks between the government of technocratic prime minister Lucas Papademos and the "troika" of international lenders – the IMF, European Commission and European Central Bank – the two sides met again on Monday night in attempt to iron out remaining differences.

"We want Greece to stay in the euro ... but I also say there can be no new Greek programme if agreement is not reached with the troika," Ms Merkel said. "All those who bear responsibility in Greece must know we will not deviate from this position."

Additional reporting by Kerin Hope in Athens, Ralph Atkins in Frankfurt and Quentin Peel in Berlin

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