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Athens faces tough bail-out terms

By Peter Spiegel in Brussels, Gerrit Wiesmann in Berlin and Matt Steinglass in Amsterdam

A €130bn bail-out of Greece will contain unprecedented controls on Athens' ability to spend funds, officials said, as European leaders scrambled on Thursday to paper over their divisions on the rescue package.

The agreement, which officials hope to finalise on Monday, is likely to include an escrow account that must always contain enough cash to pay Greece's debt for nine to 12 months. If the account falls below that level, money will be taken from funds earmarked to run the Greek government, according to people briefed on the talks. In addition, the bail-out will include a permanent and beefed-up presence of international monitors who will attempt to keep real-time tabs on the Greek government's spending decisions, officials said.

If the deal is finalised by Monday, it will still include a list of 24 "prior actions" that Greece must complete by the end of the month, before aid is released.

The deal will be quickly followed by a €200bn Greek debt restructuring, with offers to private debt holders to participate to be issued on Wednesday. The offer would be open for 10 days, officials said, and the swap formally completed a week before a €14.5bn bond becomes due on March 20, narrowly avoiding a default.

But senior officials warned that a deal was not assured. According to one official, under the plan Greece's debt would be more than 128 per cent of economic output by 2020. That is well above the 120 per cent the International Monetary Fund and several northern European Union countries have demanded.

Moreover, divisions remain in Berlin over whether to proceed with the programme or let Greece default.

Angela Merkel, chancellor, has remained steadfast in her determination to avoid a default but two senior officials said that Wolfgang Schäuble, finance minister, had become increasingly adamant in his opposition to sending more aid to Greece, believing it would be misspent.

Officials in Finland and the Netherlands expressed similar views. “I am not advocating a Greek default, hard or soft, but I’m not excluding the possibility of it if the Greeks don’t get their acts together,” Alexander Stubb, the Finnish EU minister, said during a trip to Brazil.

Jan Kees de Jager, the Dutch finance minister, told his parliament that, in order to get to 120 per cent of economic output, the bail-out would have to rise to €136bn. Dutch, German and Finnish officials have insisted on a €130bn limit and Mr de Jager said the three triple-A rated countries had come close to vetoing the programme at a planned eurozone finance ministers meeting on Wednesday, which was called off at the last minute.

“We decided to postpone the eurogroup meeting because we realised that otherwise it would have gone wrong, to put it simply,” Mr de Jager said. “I, my German colleague, and my Finnish colleague would have had no other option but to say ‘no’.”

Eurozone leaders are still debating ways to keep pressure on Athens, including holding back aid not tied to the debt restructuring until after Greek elections in April. But two officials said that idea was now off the table. “If this is going to happen, it’s going to happen in one step,” said a senior eurozone official.

Officials have moved to push Greece towards a “grand coalition” with the country’s two main parties – the centre-left Pasok and centre-right New Democracy – sharing power.

Additional reporting by Joe Leahy in São Paulo