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Greece races to meet bail-out demands

By Joshua Chaffin and Kerin Hope in Athens

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Eye on the clock: Evangelos Venizelos, Greek finance minister, welcomed the deal at a meeting of finance ministers on Tuesday

The Greek government is racing to complete a lengthy checklist of reforms demanded by international lenders before the end of February to unlock a €130bn bail-out agreed in the early hours of Tuesday morning after months of high-stakes bargaining.

The tough conditions and the short timetable reflect the collapse of trust between Greece and its trio of lenders – the European Commission, the European Central Bank and the International Monetary Fund – after Athens failed to live up to the terms of a previous €110bn bail-out agreed nearly two years ago.

The latest demands include dozens of “prior actions” that Greece must deliver as a condition of the rescue – from sacking underperforming tax collectors to passing legislation to liberalise the country’s closed professions, tightening rules against bribery and readying at least two large state-controlled companies for sale by June.

Greece will have just nine days to complete those and a slew of other unpopular measures to lay claim to the money and avoid a disorderly default next month that could force the country out of the single currency and trigger turmoil across the eurozone.

The bail-out deal, agreed by eurozone finance ministers after more than 13 hours of talks, involves bigger than expected haircuts on private bondholders and lower rates of interest on eurozone loans to Athens. The ECB and national central banks will earmark income from their Greek bond holdings either to reduce further Greece's debt burden or to compensate eurozone governments.

Welcoming the deal, Evangelos Venizelos, Greece's finance minister, said a "nightmare scenario" had been avoided. "This was a significant development that gives our country a new opportunity, and we need to make the most of this opportunity," Mr Venizelos said, urging citizens to "put behind us this sense of misery and despair and build a new national social contract."

Financial markets gave a muted response to the bail-out with European shares falling while the Dow Jones Industrial Average rose above 13,000 for the first time since May 2008. Italian, Spanish and Irish government bond yields all fell modestly.

In spite of Mr Venizelos' optimism, many economists questioned whether the deal would only delay Greece's eventual bankruptcy. Critics seized on a confidential IMF assessment which revealed that Greece's debt might still total 160 per cent of economic output in 2020 – far above the 120.5 per cent target envisioned in the bail-out.

Andrew Balls, head of European portfolio management at Pimco, one of the world's largest bond investors, said: "It is all an exercise in make-believe. Does anybody really believe any of the Greek debt sustainability numbers?"

In addition to the sheer volume of legislation the Greek government needs to pass, it will also be working against a backdrop of social unrest that has brought thousands of demonstrators on to the streets of Athens. Leftwing politicians, who have risen in the polls, have already vowed to challenge the deal ahead of expected April elections.

In what could set a precedent for future European Union rescues, the new deal gives the lenders extraordinary powers to monitor Greece's policies and ringfence its revenues to ensure that foreign creditors are paid first.

In a display of unusual haste, Athens plans to launch a private sector bond swap that is a centrepiece of the new deal as early as Wednesday. That swap is being counted on to shave €107bn from Greece's €350bn debt load.

Private investors had agreed to take a 50 per cent loss on the face value of their bonds, but were subsequently pushed during Monday night's meeting to accept a 53 per cent "haircut" to cover a widening hole in Greece's finances.

To facilitate that exchange, the government will also submit to parliament legislation to insert collective action clauses into the country's bonds. Those clauses make it easier to corral bondholders into a restructuring even if many are opposed.

Additional reporting by Alex Barker in Brussels and Richard Milne in London