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Eurozone delays half of Greece's funds

By Peter Spiegel in Brussels and Quentin Peel in Brussels

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Eurozone members delayed approval of more than half of the €130bn bail-out for Greece after demanding that Athens show more proof that it would implement hastily agreed spending cuts and reforms.

Finance ministers from the 17-country currency bloc meeting in Brussels signed off on funds to underpin a €206bn restructuring of privately held Greek debt. But they requested a "detailed assessment" by European Union and International Monetary Fund officials by next week of implementation of 38 specific measures before handing over the remaining €71.5bn to Athens.

By in effect splitting the bail-out into two parts, the eurozone has allowed hardliners in northern Europe to delay bail-out funds even longer. Once the bond swap is completed, the risk of a Greek default on a €14.5bn bond due on March 20 would disappear.

Some policymakers were optimistic that the full bail-out would go through next week. Officials are expected to meet again on March 9 to give a final sign-off, a day after the debt swap is scheduled to be completed.

"The Greek government and parliament has done everything required," said one senior eurozone official, adding that the Greek results had been presented to ministers with a "health warning" that they wanted to clear up. "It's not political, it's rather technical."

"We saw today that Greece has made a lot of effort and has made a lot of progress," said Wolfgang Schäuble, Germany's finance minister. The senior eurozone official added: "They got quite positive feedback even from the so-called hardliners."

Among issues that must be resolved, officials said, was a €300m gap that re-emerged when the Greek government changed the way unemployment benefits were paid; Greek officials agreed to switch back to the original formulation, but officials said they want to make sure it is implemented. In addition, a government analysis of how to shore up ATE Bank was still being completed.

Included is €35.5bn to be given to private bondholders as part of a complex debt swap which will see their €206bn in holdings cut by more than half. Another €23bn was approved to recapitalise Greek banks, which will see their reserves slashed when the Greek bonds they hold are cut in the swap. A separate €35bn to ensure Greek banks can access liquidity from the European Central Bank was also approved.

In an important ruling, a leading financial industry group said the debt deal would not trigger so-called "credit default swaps" – insurance-like policies that must be paid out in the event of a default.

The ruling by the International Swaps and Derivatives Association comes before the swap is completed, however, and the group warned that the deal, which could include Greece forcing losses on hold-out investors, could be revisited.

The ECB and France have been concerned that a CDS payout could reignite financial contagion because financial markets do not know which institutions would be hit by losses.

Additional reporting by Kerin Hope in Athens and Richard Milne in London

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