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EU Racing to Draft Second Greek Bailout, Sources Say

By REUTERS

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BRUSSELS/ATHENS (Reuters) - The European Union is working on a second bailout package for Greece in a race to release vital loans next month and avert the risk of [the euro](#) zone country defaulting, EU officials said on Monday.

Greece's conservative opposition meanwhile demanded lower taxes as a condition for reaching a political consensus with the Socialist government on further austerity measures, which Brussels says is needed to secure any further assistance.

Moves to plug a looming funding gap for 2012 and 2013 were accelerated after the International Monetary Fund said last week it would withhold the next tranche of aid due on June 29 unless the EU guarantees to meet Athens' funding needs for next year.

Senior EU officials held unannounced emergency talks with the Greek government over the weekend, an EU source said.

Greece took a 110 billion euros (95 billion pounds) rescue package from the EU and IMF last May but has since fallen short of its deficit reduction commitments, raising the risk of a default on its 327 billion euro debt -- equivalent to 150 percent of its economic output.

The tax cuts sought by conservative New Democracy leader Antonis Samaras could aggravate the revenue shortfall, but he argues they are essential to revive economic growth.

EU officials said a new 65 billion euro package could involve a mixture of collateralised loans from the EU and IMF, and additional revenue measures, with unprecedented intrusive external supervision of Greece's privatisation programme. "It would require collateral for new loans and EU technical assistance -- EU involvement in the privatisation process," one senior EU official said, speaking on condition of anonymity.

Extra funding for Greece faces fierce political resistance from fiscal conservatives and nationalists in key north European creditor countries -- Germany, the Netherlands and Finland -- complicating EU governments' task.

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Greek daily Kathimerini said finance ministers of the 17-nation single currency area may hold a special meeting next Monday on a new package. European Commission spokesman Amadeu Altafaj dismissed the report as "unfounded rumours, once again."

The next scheduled meeting of euro zone finance ministers is on June 20 in Luxembourg, having been pushed back a week from its original date. It will be followed three days later by a summit of EU leaders to assess the 18-month-long debt crisis.

MARKETS RATTLED

Mass unemployment and wage and benefit cuts due to the EU/IMF austerity plan have triggered spontaneous youth protests in Greece as well as a series of one-day strikes by powerful trade unions.

Weekend comments by an Irish minister that Dublin too may need a second rescue package may also fuel opposition to further bailouts among lawmakers in Berlin, the Hague and Helsinki.

Transport Minister Leo Varadkar told The Sunday Times newspaper that Ireland was unlikely to be able to return to capital markets next year as foreseen in its EU/IMF programme.

"It would mean a second programme (of emergency loans)," he was quoted as saying.

Irish central bank governor Patrick Honohan acknowledged at a news conference on Monday that debt market conditions were worse now than when Ireland took an 85 billion euro bailout last November but said they would improve.

Uncertainty over whether Greece will receive the next 12 billion euro aid tranche required to meet 13.4 billion euros in funding needs in July continued to rattle financial markets.

The Greek 10-year bond spread over safe haven German Bunds rose by 20 basis points to 1,387. Two-year yields were up 58 bps to 26.23 percent.

The European Central Bank maintained a drumbeat of pressure against any attempt by EU politicians to restructure Greece's debt mountain, even by asking investors to accept a voluntary extension of bond maturities.

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ECB board member Lorenzo Bini Smaghi said in an interview published on Monday the idea that debt restructuring could be carried out in an orderly way was a "fairytale," saying it was the equivalent of the death penalty.

"If you look at financial markets, every time there is mention of a word like 'restructuring' or 'soft restructuring' they go crazy -- which proves that this could not happen in an orderly way, in this environment at least," Bini Smaghi told the Financial Times.

He also warned against a debt 'reprofiling', or voluntary extension of Greek bond maturities, saying it would be hard to get investors to agree to such a deal without the use of force.

Euro zone governments are actively studying options for changing the maturities on Greek debt, officials say, although German Finance Minister Wolfgang Schaeuble acknowledged in an interview last week that it was very high risk.

"The Eurogroup is doing research for reprofiling -- what can you do on reprofiling? Is it possible without a credit event?" Dutch Finance Minister Jan Kees De Jager told reporters on Saturday in Cyprus. "It's an investigation, and we have to wait for the outcome of it.

EU officials contend that Greece could do much more to help itself by selling off a treasure trove of state assets.

ECB executive board member Juergen Stark told Welt am Sonntag newspaper that Athens could raise as much as 300 billion euros from privatising state property.

Greece currently aims to raise 50 billion euros from privatisations by 2015 to help stave off a fiscal meltdown, but the country lacks a proper land registry and ownership of many potentially lucrative assets is legally uncertain.

Athens is setting up a [sovereign wealth fund](#) to pool real estate assets and state stakes in companies such as telecom company OTE, Post Savings Bank and ports.

Top EU officials have asked Greece to step up privatisations urgently and suggested creating a trustee institution to help the process similar to the body that privatised East German firms after the fall of communism.

(Additional reporting by Angeliki Koutantou and Ingrid Melander in Athens, Marius Zaharia in London, Luke Baker in Brussels; writing by Paul Taylor, editing by Mike Peacock)