Greece Gets Rescue Boost as EU Trumpets Latest Crisis Remedy
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(To see the ministers' statement on Greece, click here. For more on Europe's financial crisis, see TOP CRIS.)

By James G. Neuger, Stephanie Bodoni and Jonathan Stearns
Nov. 27 (Bloomberg) -- European finance ministers eased the terms on emergency aid for Greece, declaring after three years of false starts that Europe has found the formula for nursing the debt-stricken country back to health.

In the latest bid to keep the 17-nation euro intact, the ministers cut the rates on bailout loans, suspended interest payments for a decade, gave Greece more time to repay and engineered a Greek bond buyback. The country was also cleared to receive a 34.4 billion-euro ($44.7 billion) loan installment in December. Greek bonds rose.

"This has been a very difficult deal," Luxembourg Prime Minister Jean-Claude Juncker told reporters in Brussels after chairing a 13-hour meeting that ended early today. "All initiatives decided upon today will bring Greece's public debt clearly back on a sustainable path."

After 240 billion euros in loan pledges and the biggest writedown of privately held debt failed to turn Greece around, the creditor governments led by Germany proclaimed the latest fix just as they grappled with swelling financing needs in Cyprus and a potential aid request by Spain, the fourth-largest euro economy.

'New Day'

In Athens, Prime Minister Antonis Samaras went on national television after midnight to celebrate a "new day" for Europe's most debt-ridden country. While the financing pact rewarded the government's budget cuts and steps to overhaul the economy, Greece will have to deliver on its commitments to earn each payout.

Gains made by the euro in the wake of the deal evaporated as investors asked how it will work. The currency was down 0.2 percent to $1.2950 at 12:50 p.m. in Brussels. Doubters questioned whether Greece can stomach further economic discipline and whether the bond buyback will generate enough savings. A shortfall would put outright debt relief, anathema to northern creditor countries, back on the agenda.

"This leaves some uncertainty over the deal," said Christian Schulz, an economist at Berenberg Bank in London. Below-target proceeds from the buyback "could again raise the

discussion about an official sector debt writedown."
Euro-area finance ministers sold the accord, blessed by the International Monetary Fund and European Central Bank, as a milestone in fighting the debt crisis, much as the first two Greek loan packages were once touted as solutions.

Bond Holdings

The ECB chipped in by steering profits from its Greek bond holdings back into the rescue program. National governments will funnel their share of the profits to Greece's bailout account, getting around rules that bar the politically autonomous central bank from directly lending to the state.
"I very much welcome the decisions taken by the ministers of finance," ECB President Mario Draghi said. "They will certainly reduce the uncertainty and strengthen confidence in Europe and in Greece."
The batch of measures will help pare Greece's debt from 190 percent of gross domestic product in 2014 to 124 percent of GDP in 2020, a target set by the IMF as its condition for continuing to fund a third of the Greek program. One IMF concession was to raise that target from 120 percent.
"These are solid commitments that should help Greece to recover enough and regain access to markets as planned if it takes reform measures to improve its competitiveness," IMF Managing Director Christine Lagarde said.

10-Year Bonds

Greek 10-year bonds advanced, pushing the yield down 19 basis points to 16.32 percent. It took four crisis meetings to seal the accord, starting with a Nov. 12 decision to give Greece two extra years, until 2016, to cut its budget deficit -- an admission that the austerity-first prescription for solving the crisis is strangling the Greek economy.
Scraping together the money to fill the resulting financial hole while simultaneously slicing the debt was a math exercise with political overtones. From the start, Germany, the dominant country in the crisis management, ruled out forgiving any of Greece's publicly held debt.
Debt relief would be legally questionable, German Finance Minister Wolfgang Schaeuble said. It would also be politically toxic for Chancellor Angela Merkel, running for a third term next year on the promise that Greece won't cost German taxpayers an additional cent.

Greece's Economy

With Greece's economy shrinking unceasingly since the third quarter of 2008, the IMF had called for further concessions by the European creditors, doubting that Greece would generate enough output, tax revenue or asset-sale receipts to slash the debt.

"We didn't discuss a debt cut," Schaeuble said after the meeting. "It's out of the question." Finland and the Netherlands, also with top credit ratings, balked at debt relief as well, dismissing warnings by the IMF and some ECB officials that writeoffs might be the only way out.

"Finland's conditions were fulfilled," Finance Minister Jutta Urpilainen said. "New loans won't be granted to Greece."

Still, lower bailout rates, the interest-payment suspension and the delay of Greece's final repayment deadline until the 2040s will leave taxpayers in the northern creditor countries with smaller-than-planned profits from lending to Greece.

Parliaments in Germany, Finland and the Netherlands have insisted on approving the accord, with Dec. 13 set as the deadline for a formal decision to unlock the next Greek aid tranche. Final IMF endorsement hinges on Greece completing the bond buyback.

'Constructive Ambiguity'

In addition, the ministers vowed "further measures and assistance" -- such as another cut in bailout rates and an increase in European infrastructure subsidies -- once Greece posts an operating budget surplus. French Finance Minister Pierre Moscovici said the possible future concessions were couched in "constructive ambiguity," a hint that the debt-relief debate may flare back up.

To make the package palatable for bailout-weary creditor parliaments, unprecedented controls were built into how Greece spends the money. An account devoted to debt servicing was strengthened and the payout of future aid installments was keyed to the Greek government delivering on economic pledges.

"Euro-zone countries have put their money where their mouth is," said Carsten Brzeski, an economist at ING Group NV in Brussels. "However, it is clearly not a carte blanche for Greece but rather a very tight leash."

The disbursement of 9.3 billion euros in the first quarter of 2013, for example, is tied to experts from the European Union, ECB and IMF certifying that the Greek government met a January deadline for carrying out a tax reform.

"The big challenge now is to implement the decisions," Greek Finance Minister Yannis Stournaras said. "Greece has huge potential."

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