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GREECE

Eurozone deal unlocks new bailout money

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After months of negotiations, eurozone finance ministers agreed to unlock a further EUR 10.3 billion in bailout money for Greece. The deal will give Greece some much-needed breathing space: a large chunk of the money will likely be disbursed by mid-June already, putting the risk of imminent government default to rest. All efforts should now be directed at facilitating the Greek economy's return to growth.

The fact that Greece's creditors view the reform efforts that the country has made to date in a positive light comes as little surprise. After all, under the auspices of Prime Minister Tsipras, the Greek government has largely stuck to its reform promises. In the face of massive protests by the population and in spite of a narrow parliamentary majority of only three MPs, Tsipras' government has managed to push through decisions on controversial reforms of the pension and social security system, tax hikes and contingent consolidation measures, which will come into effect if the country fails to meet its budget targets.

Although the timeline for the negotiations has been marred by constant delays in recent months, fundamental doubts as to Greece's willingness to implement reform measures have diminished and "Grexit" fears have subsided. A year ago, the situation looked very different indeed. Back then, the confrontational stance taken by Tsipras and his finance minister Varoufakis not only put the country at risk of financial and economic collapse, but also raised the specter of a possible "Grexit" from the eurozone. The reform measures adopted by Tsipras in recent weeks have boosted confidence in both the government and its willingness to implement reforms.

Eurogroup pledges conditional debt relief – but not before 2018

The Eurogroup also managed to reach an agreement on debt relief. The finance ministers endorsed a package of measures that should go some way to relieving the debt burden in the short to medium-term. A decision on more significant debt relief - as called for by the IMF - however, has been shelved until Greece's current bailout program successfully comes to an end in 2018. The IMF will decide during the course of this year whether or not it will participate in the third bailout program. One key factor in this decision is likely to be the outcome of another Greek debt sustainability analysis.

The IMF has been repeatedly pushing for far-reaching measures aimed at easing the country's onerous debt pile. Last week it cited the outcome of a debt sustainability analysis - which showed that Greece's debt could soar to 260% of GDP by 2060 - to back up its calls. At the moment, however, these calculations are nothing but scenarios. It is impossible to say how debt sustainability will develop over a period of 45 years. The more decisive question is what will happen over the next 24 months. After all, if the third bailout program fails Greece's exit from the eurozone could once again be up for discussion. Everything rests on Greece's economic outlook over the next few years. Ireland's example bears impressive testimony to just how quickly a mountain of debt can be whittled down when an economy is growing: over the past two years, the former crisis country has pushed its government debt-to-GDP ratio down by 26 percentage points or 22 percent. As a result, all further efforts should now be directed at putting the Greek economy back on the path to growth. Thanks to the moratorium on interest and principal payments that has already come into force, the debt service payments that the Greek government has to make will not have any major impact on economic growth.

Economic growth: the "make-or-break" factor

The agreement reached with its European creditors will give Greece some much-needed breathing space. The payout of the approved bailout money will cover the country's refinancing needs until the end of 2016, meaning that the risk of another liquidity crisis like the one seen in the summer of 2015 is off the agenda for the time being. The next program review is unlikely to take place before the fall and no further consolidation measures have to be adopted, which again reduces the likelihood that the government will fail. Hence the foundation has been laid for Greece's economic recovery with reduced economic and political uncertainty likely to play a key role in boosting consumption and investment. The positive impact of household and corporate confidence on economic activity could soon outweigh any short-term negative impact on demand. This is, of course, subject to the proviso that the overall

political situation remains stable. A helping hand from the EU in the form of an investment-oriented growth program could also make a significant contribution.

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