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Financial Times **Eurozone economy**

Greek debt swap triggers massive payouts

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Billions of dollars are to be paid out in insurance-like instruments as Greece on Friday pressed ahead with the largest ever sovereign debt restructuring.

In a test case for markets, [the International Swaps and Derivatives Association](#), the derivatives trade body, announced there would be a pay-out, or credit event, for holders of credit default swaps.

It means there will be a net pay-out of about \$3bn on CDS contracts, according to the data warehouse Depository Trust & Clearing Corp, in a boost for the relatively new market in sovereign debt protection that could also benefit eurozone debt markets amid worries that a failure to trigger could have undermined an important hedging instrument for holding government bonds.

However, there was a long delay over the decision by the ISDA determinations committee, which is made up of 15 global banks and investment funds, that annoyed some investors.

An auction process to decide the amount of pay-outs will take place on March 19.

Bill Gross, who runs the world's biggest private bond fund at Pimco, warned that CDS had been undermined by the saga. "The rules have been changed here," he said in a radio interview. "The sanctity of their contracts is certainly lessened."

But Robert Pickel, chief executive of ISDA, said: "I think the CDS market will come out well from this because we stayed to the letter of the contracts. The key thing was that a credit event could not be triggered until it was binding on all holders of the bonds. It would have been premature to trigger a credit event before now."

Lagarde offers IMF cash – but cuts share of total package



Christine Lagarde, managing director of the International Monetary Fund, said on Friday [she would be recommending the fund lend €28bn as part of a second bailout for Greece](#), reports Alan Beattie in Washington.

That contribution would represent a marked drop in the organisation's share of rescue loan packages to [troubled eurozone countries](#).

"Today I have consulted with the IMF's executive board and on that basis, as discussed with the Greek government, I intend to recommend a €28bn arrangement ... to support Greece's ambitious economic program over the next four years," she said.

The IMF contributed €30bn to the first €110bn EU/IMF Greek bailout package agreed in May 2010, which proved to be inadequate to arrest Greece's spiralling sovereign debt problem.

Since the total new bailout, including money left over from the first package, is likely to total around €170bn, the IMF's €28bn contribution will represent a drop in its share of the lending. The fund also contributed about a third of the rescue loan packages to Ireland and Portugal agreed in 2010, with eurozone and other governments making up the rest.

Ms Lagarde has come under pressure from emerging market governments on the fund's executive board to restrict the IMF's exposure to the eurozone sovereign debt crisis. Ms Lagarde, who took over as head of the IMF last summer, recently asked the fund's shareholder countries to come up with money to support a \$500bn increase in the organisation's financial firepower.

ISDA also said it did not expect a big market reaction to the decision because of the small likely net losses.

The country's international lenders urged the country to use the breathing space created by the [restructuring](#) to pursue an aggressive reform of its economy.

That message underlined worries across the eurozone that the successful restructuring might deliver only a temporary respite from the [crisis](#) if Athens does not follow through on pledges to sack government workers, sell off government assets and overhaul its tax collection.

Wolfgang Schäuble, the German finance minister, said: "Greece has today been given the chance to make it. But Greece will now have to seize this chance itself."

Mr Schäuble's warning came as Greek officials were putting the final touches to a €206bn bond exchange that is the largest in history.

Eurozone finance ministers welcomed the results in a teleconference on Friday afternoon as they agreed to release €35.5bn in sweeteners to complete the exchange. They will decide whether to sign off on the balance of a €130bn bailout at a Monday meeting in Brussels.

The euro fell sharply against the dollar, losing 1.2 per cent, but otherwise markets gave a muted reception to the deal. European equities rose modestly while Italy's bond yields rose slightly and Spain's fell.

The exchange, which was pieced together over four months of fractious negotiations, will allow Greece to avoid the prospect of a disorderly default on its debt later this month – an event that might have sown chaos in financial markets.

Greece and its lenders are hoping the exchange will also mark a turning point in the two-year crisis.

Once the transaction is complete, the government will shed €100bn from its €350bn debt load. With that reduction – and the adherence to a tough reform programme – Greece's lenders believe the country can reduce its debt-to-GDP ratio from 160 per cent to 120.5 per cent by 2020 – a level that is still high but considered manageable.

But there is widespread concern that Greece will eventually deviate from its commitments, particularly with elections looming and citizens reeling from years of austerity and a shrinking economy.

In a stern message to Athens, Olli Rehn, Europe's economics commissioner, called the second bailout "a unique opportunity not to be missed" and said: "I now expect the Greek authorities to maintain their strong commitment to the economic adjustment programme and to rigorously and timely implement the policy package."

Greece's lenders are mounting an unprecedented surveillance campaign to try to guarantee the government's commitment. At least four officials from the Commission's economics department will now be stationed in Athens full time – along with representatives from the IMF and the European Central Bank – to vet government policies.

"Having people on the ground allows you to have an early warning if anything is going off track," one Commission official said.

Meanwhile, European governments will also turn their attention to strengthening a firewall to protect other vulnerable economies, including Portugal, Spain and Italy. Finance ministers from the 17-member club are expected to discuss the subject at Monday's meeting.

One option under consideration is to combine the roughly €250bn remaining in a temporary bailout fund, known as the European Financial Stability Facility, with those of its €500bn successor, the European Stability Mechanism. Germany, the largest contributor to the funds, has so far been reluctant to do so.

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