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Western European Indicators and Insights

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GREECE: (Lacking) reforms still the key.

In Brussels last night, Eurozone finance ministers rebuffed the latest offer from private owners of Greek debt. A fresh round of negotiations is expected later this week with the finance ministers keen to get a lower rate of interest payable on the Greek debt of below 4%, something that bondholders are resisting.

While partly a reflection that even with a debt swap, Greece will still have a debt ratio of 120%, this desire to see a sub-4% interest rate on Greek debt is also very much an indictment of the Greek economic outlook, ie that the economy will remain very fragile for some time to come.

To what degree this is a result of the lack of reforms that Greece is pressing through is unclear. But perhaps the most notable aspect of the Eurozone finance ministers' meeting was the suggestion that Greece will have to implement additional fiscal and structural measures in order to receive a second bailout package worth € 130 bln. Indeed, it seems Greece faced great pressure at the Monday meeting from fellow Eurozone members to deliver on promised reforms to the economy, a sign that patience with the country is wearing thin just as Eurozone members begin to finalize the details of a second bail-out package.

Given that a likely general election in coming months may serve to dilute the appetite for reform in Greece even further, the question is if this patience runs out completely, enough to mean that Greece will be allowed to default and not in the orderly manner implicit in the debt swap.